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5 EMAS FOREX SYSTEM

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TABLE OF CONTENTS

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Preface

The **5 EMAs FOREX SYSTEM** actually consists of **two** trading systems: a Day-Trading System and a Scalping System.

The main part of the **5 EMAs FOREX SYSTEM** that I will be focusing on in this book is the "Day-Trading" system because our main goal is to earn 25-35 pips per day (*these and other terms that may be new to you are explained in some detail later in this book*).

Because a trading day in the FOREX market is 24 hours, it is reasonable to call it a day-trading system. In fact, most, if not all FOREX trading systems can be considered to be day-trading systems.

A Day-Trading system is a system with one rule: you should not leave positions opened overnight; however, the FOREX market is open on an ongoing, 24-hour basis.

In the FOREX market, near the end of the trading day, "swaps" are calculated. We shall be learning about this later but it would be one good reason not to leave a position open overnight: due to the calculation of negative swaps, unless you thoroughly understand how they work and their impact on your trading account.

Again, I titled the main part of the **5 EMAs FOREX SYSTEM** "Day-Trading", yet with the flexibility to leave your positions overnight, it could be called a short-term trading system, too.

Well, what can I say? I will call the main part of the **5 EMAs FOREX SYSTEM** a Day-Trading system because:

Our main goal is earning 25-35 pips per day and this is possible because we have 24 hours to do it.

My comment "with the flexibility to leave your positions open overnight" depends totally on market conditions at the time and whether your positions are in profit.

At the end of the day, there is no reason not to leave a position open overnight if it is in profit and there is a strong trend in our direction.

What is FOREX?

FOREX (FOReign EXchange Market)

The Foreign Exchange Market is the arena where a nation's currency is exchanged for that of another at a mutually agreed rate. The FOREX market was formed in the mid '70s, when international trade was changed from a system of fixed rates to a system of free-floating rates of exchange.

In fact, every country's currency is considered merchandise, like wheat or sugar; it is the same medium of exchange, like gold and silver. Since the world changes faster and faster every year, the economic conditions of every country (e.g. labor productivity, inflation, unemployment, etc.) are ever more dependant upon the level of development of other countries, and this, in turn, impacts the value of a country's currency in relation to the currencies of other countries. This is the main reason why there are rate fluctuations.

Currency Symbols:

EUR	Euro	NZD	New Zealand Dollar
USD	US Dollar	SEK	Swedish Krona
GBP	British Pound	DKK	Danish Krone
JPY	Japanese Yen	NOK	Norwegian Krone
CHF	Swiss Franc	SGD	Singapore Dollar
AUD	Australian Dollar	ZAR	South African Rand
CAD	Canadian Dollar		

Table 1

Currency Exchange Rate

Currency exchange rates are simply the ratio of one currency valued against another. For example, "EUR/USD exchange rate is 1.2505" means that one euro is traded for 1.2505 dollars.

The exchange rate of any currency is usually given as a **bid** price (left) and an **ask** price (right).

The bid price represents what has to be obtained in the quote currency (US Dollar, in our example) when selling one unit of the base currency (Euro, in our example).

The ask price represents what has to be paid in the quote currency (US Dollar, in our example) to obtain one unit of the base currency (Euro, in our example).

The difference between the bid and the ask price is referred to as the **spread.**

Lot Sizes For Different Currency Pairs			
Currency	**1.0 lot size**	**Req. margin for 1 lot**	**1 pip**
EURUSD	EUR 100,000	1,000 EUR	0.0001
USDCHF	USD 100,000	1,000 USD	0.0001
GBPUSD	GBP 70,000	700 GBP	0.0001
USDJPY	USD 100,000	1,000 USD	0.01
AUDUSD	AUD 200,000	2,000 AUD	0.0001
USDCAD	USD 100,000	1,000 USD	0.0001
EURCHF	EUR 100,000	1,000 EUR	0.0001
EURJPY	EUR 100,000	1,000 EUR	0.01
EURGBP	EUR 100,000	1,000 EUR	0.0001
GBPJPY	GBP 70,000	700 GBP	0.01
GBPCHF	GBP 70,000	700 GBP	0.0001

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EURCAD	EUR 100 000	1,000 EUR	0.0001
EURAUD	EUR 100 000	1,000 EUR	0.0001
NZDUSD	NZD 200,000	2,000 NZD	0.0001
USDSEK	USD 100,000	1,000 USD	0.0001
USDDKK	USD 100,000	1,000 USD	0.0001
USDNOK	USD 100,000	1,000 USD	0.0001
USDSGD	USD 100,000	1,000 USD	0.0001
USDZAR	USD 100,000	1,000 USD	0.0001
CHFJPY	CHF 100,000	1,000 CHF	0.01

Table 2

Let's assume the exchange rate for EUR/USD is: 1.2505/1.2509. You may have done some market analysis and decide the EUR/USD rate is moving higher (at least to 1.2600) so you buy 0.1 lot (minimum contract size) of EUR/USD at the 1.2509 ask price.

Table 1 will help you define what the contract size is, i.e. 1.0 lot for EUR/USD is 100,000 EUR so 0.1 lot (our contract size) is 10,000 EUR.

This means you bought 10,000 EUR and sold 10,000 * 1.2509 = 12,509 USD.

Now, in order to make a trade, you don't need to have the total amount of $12,509. You actually require just 1/100th of that amount ($125.09) as the rest of the money (in our example, $12,383.91) is leveraged to you by a broker (a company you entered the contract with to enter the market).

Leverage

Leverage is the term used to describe margin requirements - the ratio between the collateral and borrowed funds i.e. 1:20, 1:40, 1:50, 1:100. Leverage 1:100 means that when you wish to open a new position, you only deposit 1/100th of the contract size.

How a Transaction Is Carried Out

So, you speculate that EUR/USD is moving higher and you buy 10,000 EUR and sell 12,509 USD.

Assuming that you are right and EUR/USD reaches 1.2599/1.2603, you close the open position with an opposing one.

In our example, you close the long (buy) position with a short (sell) position, i.e. you sell 10,000 EUR (0.1 lot * 1.0 lot size for EUR/USD) and buy 12,509 USD:

Transaction	EUR	USD
Open a position - buy EUR and sell USD	+ 10,000	- 12,509
Close a position - sell EUR and buy USD	- 10,000	+ 12,599
Total:	0	+ 90

Table 3

You get a profit of 90 pips = $90 in this case. Importantly, you didn't require 10,000 EUR ($12,509) to make the trade, just $125.

A ***Pip*** or ***point*** is the minimum rate fluctuation. For EUR/USD, 1 pip is 0.0001 of the price (see Table 2). Our profit is 1.2599 - 1.2509 = 0.0090, i.e. 90 pips.

So, you invested $125 and made a profit of $90.

The time period to achieve this could be anywhere between a few seconds and several days. Assuming that it actually took a few hours, a profit of $90 for an investment of $125 and no actual “work” isn't a bad return at all.

However, you must be aware that leverage can also work against you and magnify your losses.

Only money management will help you to minimize the risks, ideally reduce them to zero, and increase the return from your funds to 10%, 20%, 30%, or higher each month.

One question is left: what is the broker's charge for the leverage they provide?

If you open and close a position before 23:00 GMT, brokers provide the leverage for free. If you leave your position open, they adjust your account with a storage charge for the overnight position. It can be either positive (credited to your account) or negative (debited to your account) depending upon the interest rates in those countries.

For example: ECB interest rate is 4.25%, FED interest rate is 3.5%. Assume you have a short position on EUR/USD of 1.0 lot so you have sold 100,000 EUR. This means you have borrowed them at 4.25% per annum.

You sold Euros and bought Dollars, which can be deposited at 3.5% per annum. As a result, the costs are (4.25% - 3.50%) per annum or $937.50 per year (if the EUR/USD rate is 1.2500), or $2.57 per day.

This means that your account will be debited with $2.57 every day for each lot if you have a short (selling) position on EUR/USD and credited with $2.57 if you have a long (buying) position.

In practice, the debited amount is a little higher than 2.57% and the credited amount is a bit lower. The difference goes to a broker as a payment for the ***rollover***.

Swaps

Symbol	Long	Short
EURUSD	-0.830 pips	0.580 pips
USDCHF	1.200 pips	-1.410 pips
GBPUSD	-0.110 pips	-0.170 pips

Continued on next page

Symbol	Long	Short
USDJPY	1.38 pips	-1.54 pips
AUDUSD	0.130 pips	-0.260 pips
USDCAD	0.230 pips	-0.400 pips
EURCHF	0.480 pips	-0.830 pips
EURJPY	0.780 pips	-1.060 pips
EURGBP	-0.490 pips	0.330 pips
GBPJPY	2.460 pips	-2.770 pips
GBPCHF	2.1400 pips	-2.540 pips
EURCAD	-0.580 pips	0.280 pips
EURAUD	-1.560 pips	1.180 pips
NZDUSD	0.520 pips	-0.630 pips
USDSEK	5.09 pips	-6.35 pips
USDDKK	3.11 pips	-4.31 pips
USDNOK	3.24 pips	-4.74 pips
USDSGD	0.480 pips	-0.78 pips
USDZAR	-6.22 pips	3.57 pips
CHFJPY	0.130 pips	-0.270 pips
GOLD	-3.50% per year	1.50% per year
CFD on stocks	-3.50% per year	1.50% per year
CFD on futures	-	-

Table 4

Note*: the storage charge for the rollover from Wednesday to Thursday is* ***three times higher*** *than for a position held over any other night.*

This is because in the spot currency market, the funds ordered when you open a position are not received until 2 business days after the position is opened and by the same token, if you close a position, the funds are not returned for 2 business days.

For positions opened on Wednesday and closed on Thursday, that would mean receipt on Friday and, therefore, rollover would be for Friday, Saturday and Sunday nights before being returned on Monday. Sorry if that seemed overly complicated – it probably was!

The main thing you need to remember is that you will see a much larger rollover charge if you hold a position over Wednesday night.

The Reasons for the Popularity of FOREX

In today's financial markets, whether you are a small or large investor, the Foreign Exchange Market (FOREX) is the most profitable sector for your investments.

Unlike other financial markets, the FOREX market has no physical location, like a stock exchange for example. It operates through the electronic network of banks, computer terminals or just by telephone.

The lack of any physical exchange enables the FOREX market to operate on a 24-hour basis, spanning from one time zone to another across the major financial centers (Sydney, Tokyo, Hong Kong, Frankfurt, London, New York, etc).

In every financial center there are a lot of dealers who buy and sell currencies 24 hours a day during the whole business week.

The trading session starts in the Far East, in New Zealand (Wellington), then Sydney, Tokyo, Hong Kong, Singapore, Moscow, Frankfurt-on-Maine, London and ends in New York and Los Angeles. Below are approximated trading hours for regional markets (New York Time):

Japan	07:00 PM-04:00 AM New York Time
Continental Europe	09:30 AM-16:00 PM New York Time
Great Britain	03:00 AM-12:00 PM New York Time
USA	08:00 AM-05:00 PM New York Time

Now, let's look at the most important reasons why FOREX is so popular today:

Liquidity

FOREX is the largest financial market in the world, with the equivalent of $3-4 trillion changing hands daily whereas the volume of the stock markets is only around $500 billion.

Flexibility

Because of 24-hour trading, participants of the Foreign Exchange Market do not have to wait for a reaction to certain external events in the same way as other daily markets (stock or futures markets, for example).

In these other markets, it is normal for prices at the "open" of the next day to "gap" up or down from the previous day's closing prices because, by morning of whatever time zone you are in, the opening price will have already factored in the impact of any relevant overnight events.

Depending upon your position, this may or may not be desirable so, generally speaking, you should aim to trade markets in your time zone to avoid the situation. That is where the 24-hour nature of FOREX is a great advantage.

Lower transaction costs

Traditionally, the FOREX market has no commissions (other than the spread - the difference between bid and ask prices).

Price stability

High liquidity helps ensure price stability when unlimited contract sizes can be executed at a fair price. It helps avoid the problem of instability, as happens in the stock market and other exchange-traded markets because of the lower trade volumes where, at any given price, only a limited number of contracts can be executed.

Margin

Margin size for trading on FOREX is defined in the contract entered between a client and a bank or a brokerage company, which provides opportunity for individuals to enter the market - usually with a capital requirement of just 1% of the contract value.

So, collateral of 1000 US dollars allows a trader to enter trades of $100,000. Such high leverage, combined with the rapid rate fluctuations make this market extremely profitable but at the same time extremely risky.

Classification Features of the FOREX Market

The FOREX market can be classified by its different features:

By the type of operations

There is a World Market of conversion operations (consisting, for example, of conversion markets like US Dollar/Japanese Yen or US Dollar/Canadian Dollar, and so on).

By the territorial feature

The International Currency Market (FOREX) is a system of markets associated with the assistance of modern technologies.

The most significant ones would be the Asiatic (Tokyo, Singapore, Hong Kong), European (London, Frankfurt on Maine, Zurich) and American (New York, Chicago, Los Angeles) markets.

It's also possible to indicate national currency markets (i.e. Russian currency market) with a wide complex of currency operations.

Due to the location of world regional markets in different time zones it's correct to say that the International Currency Market works around the clock.

It begins in the Far East, New Zealand (Wellington), passing time zones in Sidney, Tokyo, Hong Kong, Singapore, Moscow, Frankfurt on Maine, London and finishes the day in New York and Los Angeles.

The Main Market Participants

The main currency market participants are:

Commercial banks

They hold the primary capacity of currency operations. Other market participants hold accounts with banks and use them to realize their required conversion and deposit-credit operations.

A bank accumulates (through its operations with clients) the combined market needs in terms of currency conversions and effects them with the help of other banks.

Besides fulfilling clients' requests, banks can also effect transactions on their own behalf. The result is a currency market made up of inter-bank deals.

In the world currency markets, prominent international banks create the main influence as the value of their everyday operations is huge. These banks are Deutsche Bank, Barclays Bank, Union Bank of Switzerland, Citibank, Chase Manhattan Bank, Standard Chartered Bank, etc.

Their main criterion is the prominent volume of their deals which can cause important changes in quotations or in the price of a currency.

Usually, these major players are subdivided into "bulls" and "bears".

Bulls are interested in increasing the price of a currency while bears are interested in lowering the price.

Usually, the market is in a relatively balanced condition between bulls and bears where the difference in currency quotation changes within rather tight limits.

When imbalance allows bulls or bears to dominate a currency, quotations change much faster.

Companies making foreign investments

These are those companies involved with Investment Funds, Money Market Funds and International Corporations.

These companies show constant demand for foreign currency (as importers) and offer foreign currency (as exporters). Also, they place spare funds on short-term deposit.

At the same time, companies with direct access to the currency market do not, as a rule, effect conversion and deposit operations through commercial banks.

These companies, represented by various international investment funds, operate a portfolio strategy for investment of assets, arranging funds in securities of the Governments of different countries. In dealers' slang they are referred to as ***funds***, the most well-known of which are G. Soros' "Quantum", for successful currency speculations, and "Dean Witter".

Other types of companies that belong in this category are the great international corporations, creating foreign production investments: the creation of offices, combined business, etc. such as Xerox, Nestle, General Motors, British Petroleum and others.

Central banks

Their main task is currency regulation of their internal market - staving off sudden jumps in rate of a national currency to avoid economical crisis, maintaining a balance of import-export, etc.

Central banks have an influence on the currency market. Their influence could be direct – in the case of currency intervention, or indirect – through regulating the volume of money supply and bank rates.

They are not to be confused with bulls or bears, as their role involves the resolution of international financial issues being faced at a given moment.

A central bank could affect the market independently, to influence its national currency or, in co-ordination with other central banks to arrange a combined currency policy with the international market.

The banks with the most influence on world currency markets are: The United States (the US Federal Reserve or FED), Germany (Deutsche Bundesbank) and Great Britain (the Bank of England, the so-called 'Old Lady').

Currency exchanges

Among some countries with transitive economies, there are currency exchanges which are there to both arrange exchanges and to formulate a market's rate of exchange. Their Governments usually regulate the level of rate of exchange.

Currency brokerages

Their function is to introduce a buyer to a foreign currency seller and effect a loan-deposit transaction. For this service, brokerage firms ask for a commission - usually as a percentage of the deal amount.

Private persons

Individuals arrange a wide spectrum of non-trade operations in the areas of foreign tourism, wages, pensions, fee transactions, buying/selling of cash currency, etc.

In 1983, with the creation of margined trades, the ability to invest spare funds in the FOREX market for profit became a viable option for individuals.

The majority of FOREX transactions (90-95%) are arranged by international commercial banks; their own transactions as well as those of their clients.

Advancements in computer technology within the financial sphere has opened the way for private and small investors as more brokerage firms and banks allow access for private investors to FOREX via the Internet.

The Main Concepts of the FOREX Market

In banking practice there are special code abbreviations: for example, the exchange rate for the US Dollar against the Japanese Yen is referred to as USD/JPY and the British Pound against the US Dollar is referred to as GBP/USD.

The first currency is known as the ***base currency*** and the second as the ***quote currency***:

Base currency	Quote currency		Rate
USD	JPY	=	120.25

This notation specifies how much you have to pay in the quote currency to obtain one unit of the base currency (in this example, 120.25 Japanese Yen for one US Dollar). The minimum rate fluctuation is called a ***point*** or ***pip***.

Most currencies (except USD/JPY, EUR/JPY and GBP/JPY, where a pip is 0.01) use 4 decimal places, i.e. 0.0001.

The currency pairs on FOREX are quoted as ***bid*** and ***ask*** (or ***offer***) prices:

Currency	Bid		Ask
USD / JPY =	120.25	/	120.30

Bid

Bid is the rate at which you can sell the base currency, in our case it is the US Dollar, and buy the quote currency, i.e. Japanese Yen.

Ask (or offer)

Ask (or offer) is the rate at which you can buy the base currency, in our case US Dollars, and sell the quote currency, i.e. Japanese Yen.

Spread

Spread is the difference between the 'bid' and 'ask' prices.

Margin trading

Margin trading assumes that FOREX dealing is based on the margin, the collateral, and the provided leverage.

Such credits are provided by the brokerage companies, in addition to their informational services, and make it possible for a trader to enter into positions larger than his/her account balance. This collateral is typically referred to as ***margin***.

Margin

Margin is the sum of a guarantee pledge under which leverage is provided.

Leverage

Leverage is the term used to describe margin requirements. It is expressed as the ratio between the collateral and borrowed funds, i.e. 1:20, 1:40, 1:50, 1:100.

Leverage of 1:100 means that when you wish to open a new position you need just 1/100th of the contract size in available capital.

Currency Rate

Currency Rate is the ratio of one currency valued against another. It depends on the demand and supply within a free market or a market restricted by a government or central bank.

Lot

Lot is a fixed standard amount of a given currency for the purpose of trading. Sometimes it is known as the ***contract size***. The monetary value of 1.0 lot for each currency pair is listed in Table 2.

Storage

Storage is the charge to rollover (hold) a position overnight. It can be either positive (credited) or negative (debited) to your account balance depending on the interest rates in the countries of the currencies you are trading.

Mini-FOREX – FOREX Trading With $100 Deposit

InterBankFX provides its clients with the ability to trade mini-FOREX contracts where margin requirements start at just $100 because the contract sizes are smaller than standard contracts.

This means that the average person can trade currencies alongside those with $100,000+ trading accounts and earn proportionally the same returns.

To trade mini-FOREX, a trader simply specifies a smaller lot size, i.e. 0.1, 0.2, etc. (at any rate, less than 1.0 lot).

Until 2003, there was a difference in trading conditions between mini-FOREX and standard FOREX and a commission of $3.00 was charged for each mini-FOREX contract. In mid-2003, this practice ceased and there is now no difference between mini-FOREX and standard FOREX: there are no longer any commission charges, only the spread.

Keep these things in mind:

The FOREX market is an inter-bank market with a minimum trade size of $1,000,000. How then do $10,000 trades, representing mini-FOREX contracts, get represented in an inter-bank market?

For small deals, clients require a partner, i.e. a brokerage. If the brokerage has a large number of clients trading mini-FOREX then it is conceivable that they could combine those orders to create an inter-bank market contract.

On the other hand, a brokerage with just a few clients would never reach minimum contract requirements to place a trade into the market.

In these circumstances, a brokerage might decide to assume any potential liability in the hope that the majority of their clients would hold losing positions, i.e. the brokerage takes opposing positions to their own clients. If the client wins then the brokerage loses and vice-versa.

A brokerage in this situation may try to tip the balance in their favor by shifting the quotation when closing trades, etc. to create unplanned losses for their clients.

Of course, if the brokerage has been in existence for some time then they have most likely amassed a large client-bank of active traders so combining contracts to take actual positions in the inter-bank market would not be an issue for them.

In such a scenario, the brokerage is not interested in whether a client wins or loses as they will be earning the 1-2 pip spread in either case.

In practice, the brokerage does care whether their clients win because winning traders become more confident, active and more profitable for the brokerage.

What We Need To Access the Market and Trade It

We Need an Internet Connection

Actually, transactions can be carried out by telephone. Some brokerages insist on carrying out transactions by telephone if the volume of transactions exceeds certain limits.

Also, as you know, neither software nor internet access can be guaranteed to operate 100% of the time. In these situations, transactions can be opened or cancelled by telephone.

Of course, it is to your advantage when you can work via the Internet as it allows continuous communication with the market and high speed execution of orders.

For our purposes, the best option is high-speed Internet. Either DSL or Cable is perfectly adequate and a dial-up connection for emergency use is a good idea. Remember that dial-up is for unforeseen situations - I would not recommend it for normal use.

For added safety, I strongly suggest purchasing a good Uninterruptible Power Supply (UPS) in case of a local power failure.

Ok! We have discussed what is required and or prudent for us to connect with the brokerage and we have protected ourselves against various unforeseen situations. Now we need to choose a brokerage or Dealing Center through which we can access the market and place our trades.

We Need a Brokerage

There are many brokerage offices offering access to the FOREX market.

Use the following criteria for choosing a brokerage who will give you the best level of service:

1. Reliability.
   - It is necessary to find out how many years the given company has been working in this sphere of business and how many clients it has.
   - The longer it has worked in this sphere of business, and the more clients it has, the better
2. Quantity and quality of services:
   - technical support service
   - facilities for funding and withdrawing from a trading account, etc. to meet your personal requirements
3. Number of available currency pairs for trading
4. Most important:
   - pay attention to the size of their spreads (each brokerage is free to set their own) and the speed & quality of order executions
   - consider the functionality of the trading terminal offered. Download it, install it and study the documentation until you are totally comfortable with it

You should know your trading terminal so well that you can instantly find any tool or feature when required.

Most importantly, you should understand the various orders and the rules relating to their execution – for example: the multiplication table.

In this section we have briefly touched on the subject of software for giving us access to the market. In the following section we shall consider in more detail the types of applications available for working in the financial markets.

We Need Specialized Software to Access the Market

As you will realize, we need specialized software, but what do we actually require and what would be best?

Types of software for working in financial markets

Brokerages with on-line market access and other services offer different types of programs free of charge.

Some companies offer purely trading platforms without any market analysis functions.

Others offer both trading platforms and market analysis software. These usually consist of separate applications, which is a little inconvenient because you have to launch one program for trading and the other for analysis.

There are even brokerages which only provide a trading platform and advise clients to purchase additional software for market analysis & forecasting. As a general rule, stand-alone software is rather expensive and may require a one-time payment, a monthly/annual charge or both.

Therefore, the best choice is a stand-alone application that integrates both market analysis and the ability to execute trades.

My software of choice is MetaTrader 4. This trade terminal allows you to analyze markets and, at the same time, execute trades directly from the charts.

I discuss MetaTrader 4 in more detail later in this book.

Types of Orders

There are many different types of orders, some of which are specific to stock trading. Fortunately, it is not necessary for us to learn all of them.

In my opinion, it is enough to examine only those orders which are used in MetaTrader 4 – this will encompass the types of orders which are most commonly used in the FOREX market.

Client terminals allow the preparation of requests to the broker for execution of trading operations. Moreover, a terminal allows control and management of open positions. To achieve this, several types of trading orders are used.

An order is a client's commitment to a brokerage company to perform a trade operation.

The types of orders we will be using are:

Market Order

A Market Order is a commitment to the brokerage company to buy or sell a security at the current price. Execution of this order results in opening of a trade position.

Securities are bought at the ASK price and sold at the BID price.

Stop Loss and Take Profit orders (described below) can be attached to a market order.

The **Execution mode** of market orders depends on the type of security traded.

Pending Order

Pending order is the client's commitment to the brokerage company to buy or sell a security at a pre-defined price in the future. This type of orders is used for the opening of a trade position provided the future price quotes reach the pre-defined level.

There are four types of pending orders available on the terminal:

Buy Limit — Buy provided the future "ASK" price is equal to the pre-defined value. The current price level is higher than the value of the placed order.

Orders of this type are usually placed in anticipation that the security price, having fallen to a certain level, will increase.

Buy Stop — Buy provided the future "ASK" price is equal to the pre-defined value. The current price level is lower than the value of the placed order.

Orders of this type are usually placed in anticipation that the security price, having reached a certain level, will continue to increase.

Sell Limit — Sell provided the future "BID" price is equal to the pre-defined value. The current price level is lower than the value of the placed order.

Orders of this type are usually placed in anticipation of that the security price, having increased to a certain level, will fall.

Sell Stop — Sell provided the future "BID" price is equal to the pre-defined value. The current price level is higher than the value of the placed order.

Orders of this type are usually placed in anticipation of that the security price, having reached a certain level, will continue to fall.

Stop Loss and/or ***Take Profit*** orders can be attached to a pending order. After a pending order has triggered, its Stop Loss and/or Take Profit levels will be attached to the newly opened position automatically.

Stop Loss

A Stop Loss order is used to minimize losses if the security price has started to move in an unprofitable direction. If the security price reaches this level, the position will be closed automatically.

Such orders are always connected to an open position or a pending order.

The brokerage company can place them together only with a market or a pending order. The terminal compares long positions against the ASK price and short positions against the BID price.

There is also an automated Stop Loss order called a **Trailing Stop** which continuously adjusts its position to a fixed distance from the current price while a trade is increasing in profit but holds its position if the current price starts to move against the trade, thus locking in profits.

Take Profit

The Take Profit order is intended for automatically exiting with a profit when the security price has reached a certain level. Execution of this order results in closing of the position.

It is always connected to an open position or a pending order.

The order can be requested together only with a market or a pending order. The terminal compares long positions against the ASK price and short positions against the BID price.

Important:

Execution prices for all trade operations are defined by the broker;

Stop Loss and Take Profit orders can only be executed for an open position but not for pending orders.

Speed of Order Execution

Speed of execution for an order is a very important aspect of any on-line trade operation.

Whilst speed is naturally important for managers of large funds and for traders who trade on a long-term basis, it is **extremely** important to us – traders whose profit depends on seconds or even fractions of a second.

Not long ago, orders could only be conducted by telephone. Today, some brokerage companies still insist that trades above a certain size, e.g. $1,000,000 for single trading position, are placed by telephone.

Nowadays, most companies have switched to so-called "instant execution" of orders. This means that the time taken for the operation (the period between when you issue an order to the broker to open or close a trade position and the actual opening or closing of the trade) is typically 2-5 seconds, though this time period depends very much on the quality of your Internet connection.

So, we've looked at almost all aspects required for trading and now we need to move on to learn about forecasting market behavior.

Why forecast? Well, you certainly wouldn't drive your car while blindfolded so why would you think about trading that way?

Let's look at these common tools which help us to trade more efficiently.

How to Forecast Market Behavior

Can we forecast the future?

Why yes, of course! Any financial market can be analyzed and forecast in some way.

Through the medium of specialized sciences we call technical and fundamental analysis we can assess the probabilities of a market's direction in the future.

Fundamental Analysis

Fundamental analysis is an analysis of a country's national qualities (macroeconomics). Fundamental analysis is more pivotal in its power to move the markets with the whims of its daily, weekly, monthly, etc. economical news releases.

Any kind of breaking news, such as some unexpected event of national importance, can break any market prediction that is based on technical analysis alone. We will discuss technical analysis much more in the next section.

The most important macroeconomic indicators are:

1. Factors influencing the market include: Consumer Price Index (CPI), Orders for durable goods, Employment data, Gross National Product (GNP), new house construction, international trade balances, personal income and outlay, Producer Price Index, retail sales, etc.

2. Other important indicators: Beige book, Consumer confidence, Current account, session of the Federal Open Market Committee (FOMC Meeting), Leading Indicators, initial requirements of unemployment benefits (Jobless claims)

3. Reports of heads of the governments, heads of the central banks, outstanding economists concerning a situation in the market

4. Changing monetary and credit policy

5. Sessions of the big seven - the trading and economic unions

There is no real need to worry about "surprise" results. These macroeconomic indicator reports are published at known times of the year and rarely contain unexpected results.

Here is a typical example for one day: Wednesday, 19 April 2006

Time GMT	Country	Period	Macroeconomic indicators	Prior	Forecast	Actual
06:00	Germany	Mar	PPI	0.7% m/m 5.9% y/y	0.3% m/m 5.6% y/y	
08:00	Norway	Mar	Trade Balance	+nok29.2B		
08:30	Great Britain	Apr	BOE publishes minutes of April 5-6 MPC meeting			
11:00	USA	Apr 14	MBA Mortgage Application Index	-5.5% to 579.4		
12:30	USA	Mar	CPI ex food & energy	+0.1%	+0.2%	
12:30	USA	Mar	Consumer Price Index	+0.1%	+0.4%	
12:30	Canada	Feb	Wholesale inventories	+1.4%		
12:30	Canada	Feb	Wholesale sales	+1.8%		
12:30	Canada	Mar	Leading indicator	+0.2%		
12:30	Canada	Feb	Intl sec transaction	+C$3.0 bn		
13:00	USA		International Monetary Fund to release semi-annual World Economic Outlook ahead of annual spring meetings, in Washington.			

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14:30	USA	Apr 14	EIA Crude Oil Stocks	+3.2 mn to 346.0 mn brls		
18:30	USA		Treasury Secretary John Snow to address the World Health Care Congress, in Washington.			
23:50	Japan	Mar	Trade Balance	Y955.7B	Y704.8B	

As you can see, the right hand part of the table (above) consists of three columns: ***Prior***, ***Forecast*** and ***Actual***.

"***Prior***" means that a previously defined index had some value in the past for a defined period of time (week, month, quarter).

"***Forecast***" means economists and professional traders, based on specific calculations, are waiting for this index value for the week, month or quarter.

"***Actual***" means the real value of the index is unknown (or, at least, unpublished) so far.

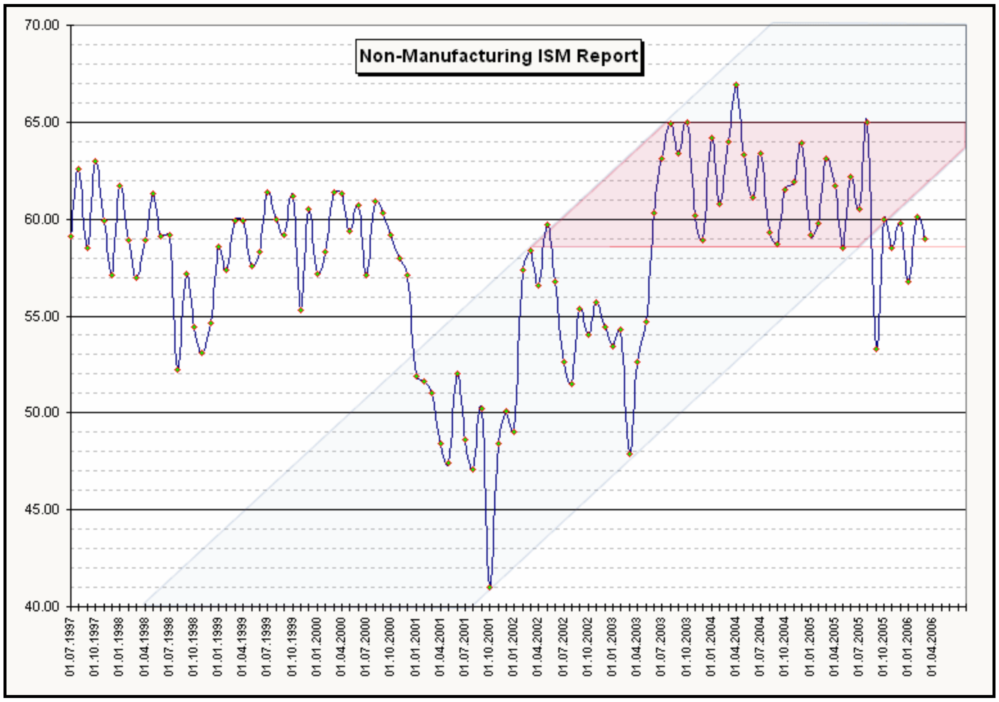
Of course, if you are a beginner, then these aspects can be difficult to understand.

Don't worry! Help is at hand.

Most brokerages offer a service providing this information to their clients free of charge.

Common detailed Fundamental Analysis for an index:

Fundamental Analysis: ISM services index



The last value on the chart above shows predicted data

Analysis: This index was in an uptrend from the end of 2001. During 2002 it stayed above 50, signifying that the service sector was increasing. From the middle of 2003 this index stabilized within the indicated range. Its decrease in September was triggered by the hurricane and, though it recovered in October, it is still quite low.

Conclusion:
This index signifies some weakness in the mid-term perspective. ISM services index for March may be more positive than forecast.

2nd example of Fundamental Analysis for a day: Wednesday, 5 April 2006

Time Zone (GMT)	Country	Period	Indicator	Forecast	Prior	Level of importance
01:30	Australia		RBA Board Meeting Outcome	5.50%	5.50%	3
Note: Most likely, the interest rate remains constant.				Possible influence on an exchange rate		
				Forecast	Above the forecast	Below the forecast
				AUD →	AUD ↑↑	AUD ↓↓
09:30	Great Britain	February	Industrial Production	0.2% м/м, -0.9% y/y	0.4% м/м, -1.3% y/y	2
Note: Decrease in a level of production will put pressure upon a rate of sterling.				Possible influence on an exchange rate		
				Forecast	Above the forecast	Below the forecast
				GBP →	GBP ???	GBP ↓
14:30	USA		Statement of chairman of Federal Reserve Ben Bernanke in Washington.			3
Note: Swings are possible in the market. I recommend operating extremely cautiously with the dollar at this time.				Possible influence on an exchange rate		
				Forecast	Above the forecast	Below the forecast
				USD ???	USD ???	USD ???
15:00	USA		Statement of Minister of Finance John Snow on questions of the budget for 2007 in Washington.			3
Note: At this time I do not recommend entering USD transactions.				Possible influence on an exchange rate		
				Forecast	Above the forecast	Below the forecast
				USD ???	USD ???	USD ???

Notes:
Above the forecast *– the actual value is mathematically larger than the forecast value (for example, 5% > 4.3% and -49 > -51).*

***Below the forecast** – the actual value is mathematically smaller than the forecast value (for example, 4.1% < 4.3% and -61 < -51).*

Fundamental analysis does not provide absolute indication in market analysis and will always consist of a complex of possible tendencies.

The level of importance of each economic indicator can be deduced by studying the influence that indicator exerted on an exchange rate over a period of several years.

The level of importance of a given indicator can be over or underestimated depending on the market conditions at the time and the degree of expectancy by a market of the announced result.

Explanation of the elements of the forecast:

IMPORTANCE OF THE ECONOMIC DATA

1	The announcement of a given result is not expected to influence a currency and, most likely, its publication will be little more than a statistical fact
2	The announcement of a given result is expected to influence a currency for the current session at most
3	The announcement of a given result is expected to influence a currency for a day, a week or even a month

POSSIBLE INFLUENCE ON AN EXCHANGE RATE

→	The output of the economic indicator (presumably) does not render action on an exchange rate
↑	The output of the economic indicator will (presumably) cause growth of an exchange rate
↓	The output of the economic indicator will (presumably) cause a decline of an exchange rate
↓↓	The output of the economic indicator will (presumably) cause strong (very strong) decline of an exchange rate
↑↑	The output of the economic indicator will (presumably) cause strong (very strong) growth of an exchange rate
?	It is very difficult to predict movement of the currency after the publication of the data (more often it happens before publication of carryovers from sessions of central banks, statements of large political figures, publications of economic reports (the Beige book (USA), Tankan (Japan), etc.)

As you can see, brokerages will try their best to help you with all kinds of trading information. In time, you'll be able to understand everything very clearly.

Now, let's move on to Technical Analysis. This will only be a brief introduction as there are a lot of books available on this topic. We will cover what is required to successfully use this trading system.

Technical analysis

Technical analysis is research of market dynamics done mainly with the help of charts, and for the purpose of forecasting future price movement.

Technical analysis comprises several approaches to the study of price movement which are interconnected within the framework of one harmonious theory.

This type of analysis studies the price movement in the market by analyzing three market factors: price, volume, and in the case of futures contracts, the number of open positions.

Of these three factors, the primary one for technical analysis is that of price. Changes in other factors are studied, mainly in order to confirm the correctness of the identified price trend. This technical theory, just like any theory, has its core postulates.

Technical analysts base their research on three axioms:

- Market movement considers everything

  This is the most important postulate of technical analysis. It is crucial to understand it in order to grasp the procedures of analysis.

  Put simply, any factor that influences the price of securities, whether economic, political, or psychological, has already been taken into account and reflected in the price chart.

In other words, every price change is accompanied by a change in external factors. The main inference of this premise is the necessity to follow closely the price movements and analyze them.

By means of analyzing price charts and multiple other indicators, a technical analyst reaches the point that the market, itself, shows him/her the trend it will most likely follow.

This premise is in conflict with fundamental analysis where the attention is primarily paid to the study of factors, and later on, after the analysis of the factors, conclusions as to the market trends are made.

Thus, if the demand is higher than the supply, a fundamental analyst will come to the conclusion that the price will increase. A technical analyst, however, makes his/her conclusions in the opposite sequence: since the price has increased, it means the demand is higher than the supply.

- **Prices move with the trend**

This assumption is the basis for all methods of technical analysis, as a market that moves in accordance with trends can be analyzed, unlike a chaotic market.

The postulate that the price movement is a result of a trend has two effects:

The first implies that the current trend will most likely continue and will not reverse itself, thus, excluding disorderly chaotic movement of the market.

The second implies that the current trend will go on until the opposite trend sets in.

- **History repeats itself**

Technical analysis and study of market dynamics are closely related to the study of human psychology. Thus, the graphical price models identified and classified within the last hundred years depict core characteristics of the psychological state of the market.

Primarily, they show the moods currently prevailing in the market, whether bullish or bearish. Since these models worked in the past, we have reason to suppose that they will work in the future, for they are based on human psychology which remains almost unchanged over the years.

We can reword the last postulate — history repeats itself — in a slightly different way: the key to understanding the future lies in the study of the past.

Complex Trading Systems

Trading Systems created by advanced traders

As a rule, “beginner” traders search for literature devoted to trading financial markets. They study market basics and as they begin to understand how they function, they study the technical and fundamental analysis.

While continuing with their studies, they open a virtual trading account and start to practice their theoretical knowledge.

Of course, it takes time.

Once they start to earn “income” using virtual money, they open the real trading account, fund it with real money and start trading with the intention of receiving a real money profit.

A trader looks at various indicators, trying to define which are best suited to their style of trading. In parallel, a trader can use the free and paid services giving trading recommendations.

In due course, step by step, a trader begins to form their own approach to trading based on certain rules for using those particular indicators or other trading tools (a set of carefully chosen indicators, with certain parameters, for example).

Eventually, the trader forms their own unique approach to trading; their trading strategy or trading system.

Put simply, a system consists of identifying a set of events or situations which arise in the market and confirming these as good (or bad) by comparing them with a known set of parameters and technical indicators. When all or most of these events occur at any one time, it is a signal to buy (or sell).

It is important for the systems developed by a trader to be computerized at the earliest opportunity. This will allow their automatic execution without the trader having to be directly involved.

Many trading platforms such as MT4 allow the user to program algorithms (a procedure or formula for solving a problem, created in the form of a script that is run on your computer) and build them into a trading system. This makes it possible for trade positions to be opened and closed automatically when certain conditions occur.

The basic advantages of this approach are:

1. There is no human factor, i.e. a trader, as a person, will be free from excessive emotions. Nerves are kept (relatively) intact!

2. The trader will have more free time. Traders should not be constantly "chained" to the computer screen.

The basic disadvantages of this approach:

1. As all these systems are executed by the client's computer (within the trading terminal or platform), instead of on the brokerage's server, it can create a different sort of force majeure situation such as: problems with your PC (computer lock-ups, etc.), power failures or internet connection problems.

2. There is more chance of missing unexpected fundamental news.

The given approach has advantages and also disadvantages – ultimately it is up to you.

As for myself, I use my own trading system: "**5 EMAs FOREX SYSTEM**" which is just partly mechanical. You will learn about it in the next section.

Trading Systems offered by financial companies

As has been mentioned before, there are many companies offering "ready for trading" trade recommendations or instant trade alerts (for intraday trading). Charges for these facilities can be monthly, quarterly or annual. These services can be in the form of "ready for use" software, e-mail mail alerts or notifications via instant messenger services.

The cost for such services can be quite high: around $200 per month for trading alerts and more.

Software can be even more expensive. I know of companies offering software for generating trading signals/alerts that costs over $9,000!

In fairness, these services can be very useful for people who are very busy and just unable to watch the markets all the time.

In my case, I prefer to use my own trading system and I am confident that you will like using it too.

In the next section we will look at the technical tools used in my system – The **5 EMAs FOREX SYSTEM**.

5 EMAs FOREX SYSTEM

Description of the system

The ***5 EMAs FOREX SYSTEM*** consists of two systems: A Day-Trading system and a Scalping system.

Depending on market conditions, exiting trades can be deferred until the next day or even for several days. It really depends on your appetite and temperament – trading can be stressful!

> ***Important:***
>
> *Every knowledgeable trader knows that day-trading (intraday trading) means opening and closing your positions within a single trading day.*

In other words, you must not leave open positions overnight; but in this system you may leave your positions open overnight or even for several days if market conditions are good.

For example, after opening a position, you might find yourself in a strong up or down trend movement that has developed. In these circumstances you can use a trailing stop.

This system can be used in markets no matter which direction they are headed, up or down.

So, if the market is going up, **we trade it upwards**.

If the market is going down, we also **trade it – downwards!**

There are several strategies for entering a market and several for exiting. Later in this book, I also discuss something called ***trailing stops***.

The purpose of using this system

From the title of this book "How to turn $1,000 into $1,000,000 in 24 months" it is clear our purpose in promoting this system is for you to achieve this goal for yourself: to turn $1,000 into $1,000,000 within 24 months.

Did you notice I added the "$" to the figures? Make no mistake. I am talking about making **real money.**

It may seem like a dream or some advertising trick, but it's not. It's real and **it's achievable!**

Here's something for you to think about:

> Larry Williams, a well-known trader, entered a futures trading contest for international traders and grew a $10,000 account into over $1,000,000 in just 12 months… then repeated the feat the following

year! Some time later, his daughter followed in her father's footsteps and did the same.

They traded futures but we have the FOREX market with much greater profit potential than other financial markets.

So, let's see how much we can earn on the way to reaching our goal and thus achieving our purpose.

If you were to earn **as little as 2.5% a day** from your original $1,000 deposit by trading 10% of it per trade - in this instance, 25-31 pips with a leverage of 1:100(1%) – at the end of a 24 month continuous trading period **you would have an account balance of <u>$263,819,900</u>!!**

***Note**: In this example it is assumed that you:*

a) used correct 0.1 lot trade increments as your account balance permitted and,
b) did not make a withdrawal of funds from your account, otherwise the result would be quite different.

Let's now see how such a great sum is created.

The secret is in the compounding factor and in the use of special money management rules.

There are basically 22 trading days and 8 days off in each month. So, for a pair with a fixed pip value of $10 (EUR/USD), **<u>2.5% a day gives you between 42% and 72% potential compounded growth per month.</u>**

Let's assume you opened your live trading account on 1st of January 2005 with a $1,000 deposit and traded until 1st of January 2007.

Look at these tables to see how much your investment increases month by month.

1st 12 Months	
Month	Balance
January	$1,550
February	$2,200
March	$3,450
April	$5,550
May	$9,150
June	$15,450
July	$26,275
August	$44,825
September	$76,800
October	$131,800
November	$226,575
December	$389,700

2nd 12 Months	
Month	Balance
January	$670,550
February	$1,154,075
March	$1,986,475
April	$3,419,525
May	$5,886,650
June	$10,133,900
July	$17,445,875
August	$30,034,000
September	$51,705,375
October	$89,014,150
November	$153,243,900
December	$263,819,900

Note: *Amounts shown have been rounded down.*

Now, imagine if you had started with a $10,000 deposit!

General Money Management Rules for the 5 EMAs FOREX System

> ***Important***:
>
> *The Money Management Rules explained below apply **only** to the **5 EMAs FOREX System**. Use of these rules with other trading systems could result in unexpected losses.*

You know already what **Money Management Rules** are for and also that these rules are different for every trader. Their main purpose is to prevent you from using (or losing!) all your capital at once.

For me, an acceptable level of risk is between 8% and 10% of my account balance on any single trade. Trading with a fixed number of lots is one thing, but using different levels of stop orders is quite another situation. Let's clarify this.

Note: *We will be trading EUR/USD, USD/CHF and USD/JPY currency pairs.*

For example, if you open a 1-lot position with a deposit $1,000 and a stop order at 100 pips (EUR/USD - fixed value for pips) you are risking 10% of your account, as the pip value of EUR/USD is $10.00. For USD/CHF and USD/JPY currency pairs we have:

- USD/CHF (floating pip value), about $8, risk – 8%
- USD/JPY (floating pip value), about $9, risk – 9%

My system recommends a level for stop orders of 45 pips but, as you will notice, that gives differing risks depending upon the currency traded:

- EUR/USD - 4.5% for one lot
- USD/CHF - 3.6% for one lot
- USD/JPY – 4.05% for one lot

As I mentioned before, all the calculations of percentages were related to a pair with a fixed pip value ($10), in which case we needed to earn 25 pips per day.

This means that the number of pips we need to earn each day for pairs with floating pip values will be different:

- USD/CHF - $8 pip value - requires 31 pips per day
- USD/JPY - $9 pip value - requires 28 pips per day

Lot management for medium risk/aggressive traders:

We open two standard lots. The initial Stop Loss order level is 45 pips from the entry point.

> ***Note:*** *Technical exit strategies will be covered later in the "Trading rules for the 5 EMAs FOREX System" chapter.*

The risk for various currency pairs:

- EUR/USD - 9%
- USD/CHF - 7.2%
- USD/JPY – 8.1%

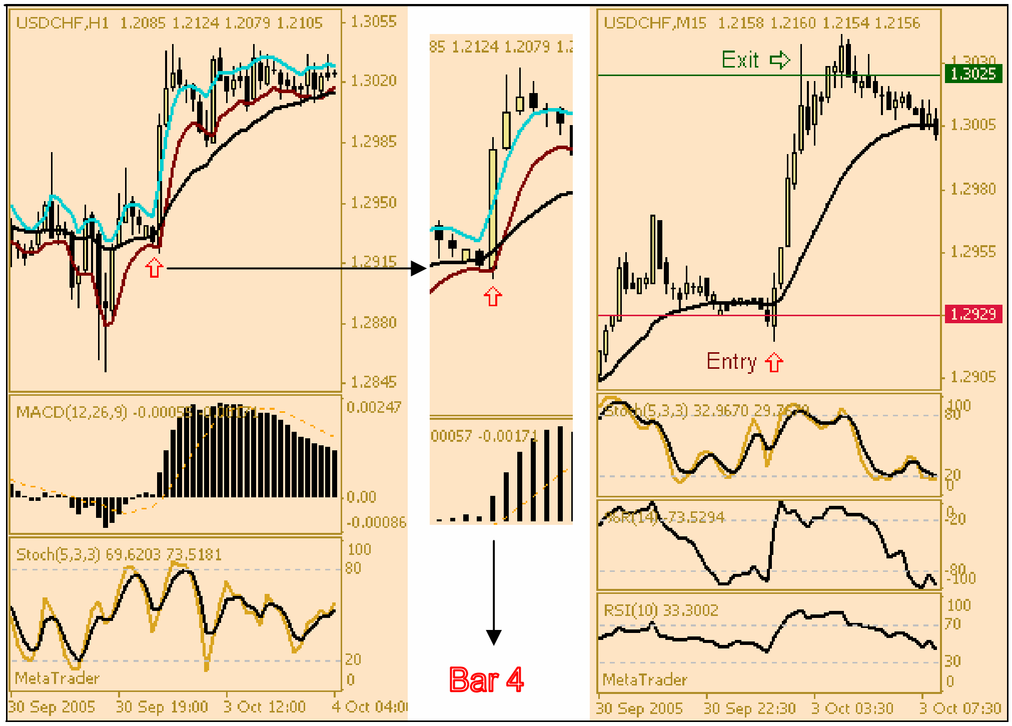
As you can see, all risks are acceptable (to me, at least) and, hopefully, now you'll understand the purpose of using two lots.

Once the currency pair has moved a set number of pips in our direction (the number of pips varies between currency pairs), we close one lot and set the Stop Loss level on the remaining lot to the entry point (break-even) level.

Examples of multiple exit points for different pairs

- **USD/CHF** – Open two lots. Upon reaching 31 pips profit, we close one lot and move the stop loss order to our entry (break-even) point.

Illustration of the USD/CHF trade



$1,018 profit in two hours

We entered with a buy order at a price of 1.2929 (the low of the price bar was actually 1.2919) and the stop loss order set at 1.2884.

The price reached 1.2965 which, after deducting the 5 pip spread, gave us our 31 pip profit at our target exit price of 1.2960.

Having closed one lot and moved the stop loss order for the remaining lot to its break-even / entry point (1.2929), we have achieved our goal for the day by earning $250 (2.5%) and now we have nothing to lose but our unrealized gains from our second lot.

Let's see what we can do now.

At this point, we have a banked profit of $250 from the first lot and the market price has now peaked at 1.3037.

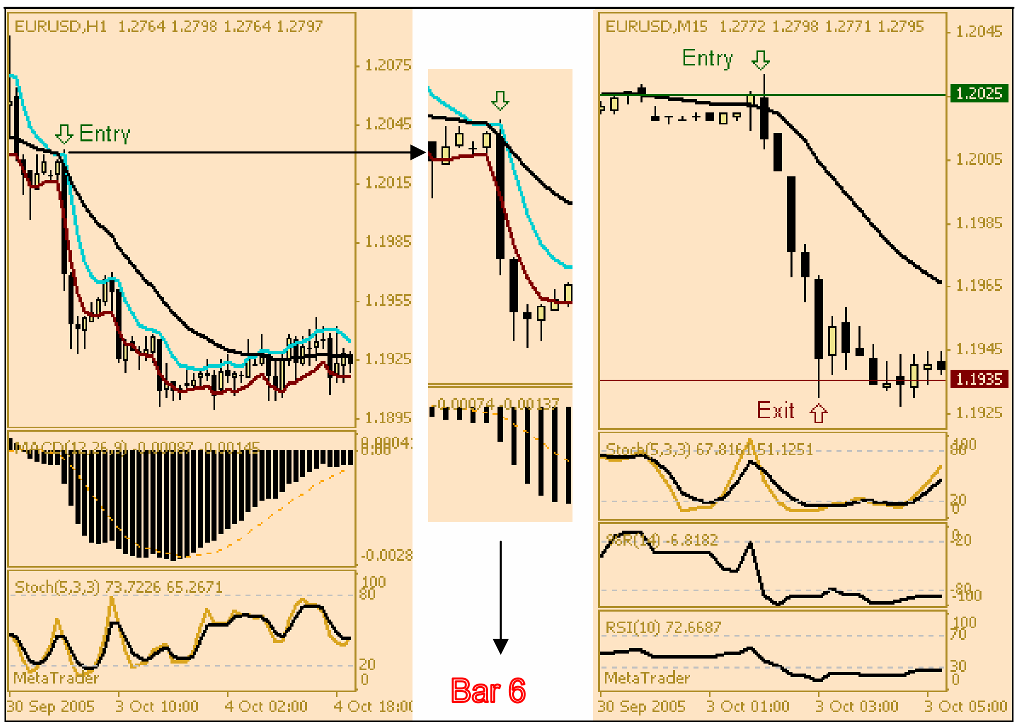
Using exit strategy №1 (more about this later), we closed the remaining lot at a price of 1.3025.

The second lot earned us 96 pips or $768.

The result: in just 2 hours we earned $1,018 which is **4 times more than the plan**.

- **EUR / USD** – Open with two lots. Upon reaching 25 pips profit, we close one lot and move the stop loss order to our entry (break-even) point.

Illustration of the EUR/USD trade



$1,150 profit in two hours

We entered with a sell order at a price of 1.2025 (the high of the price bar was actually 1.2031) and the stop loss order set at 1.2070.

The price reached 1.1997 which, after deducting the 3 pip spread, gave us our 25 pip profit at our target exit price of 1.2000

Having closed one lot and moved the stop loss order for the remaining lot to its break-even / entry point (1.2025), we have once again achieved our goal for the day by earning $250 (2.5%) and, as before, we now have nothing to lose but our unrealized gains from our second lot.

So, what happened next?

Well, we already had our $248 banked profit from the first lot and we still had current profits of $248 from the second lot. Then the price actually fell to 1.1930.

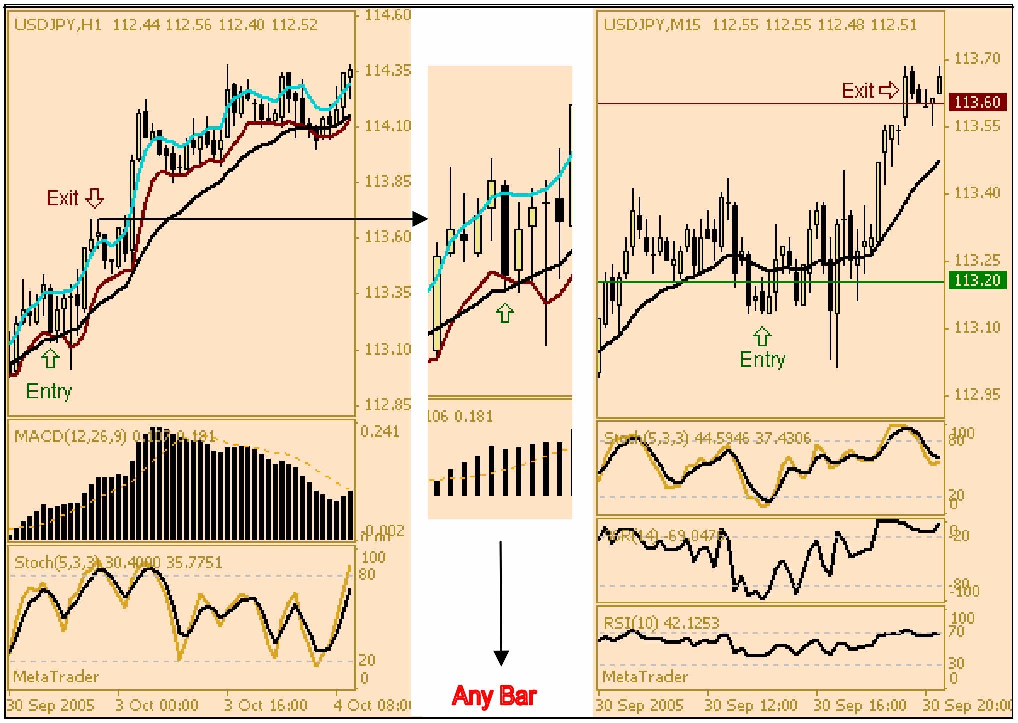
Using exit strategy №1 (more about this later), we closed the remaining lot at a price of 1.1935 which gave us a profit of 90 pips or $900.

The result: for about 2 hours "work", we earned $1,150 – almost **5 times more** than the plan.

Okay – you will probably be getting a bit bored with these examples so just one more…

- **USD/JPY** – Open with two lots. Upon reaching 28 pips profit, we close one lot and move the stop loss order to our entry (break-even) point.

Illustration of the USD/JPY trade



$610 profit in six hours

We entered with a buy order at a price of 113.20 (the low of the price bar was actually 113.13) and the stop loss order set at 112.75.

The price reached 113.51 which, after deducting the 3 pip spread, gave us our 28 pip profit and target exit price of 113.48

Having closed one lot and moved the stop loss order for the remaining lot to its break-even / entry point (113.20), we have achieved our goal for the day by earning $250 (2.5%) and now, just as before, we have nothing to lose but our unrealized gains from our second lot.

As expected, we have our banked profit of $252 from the first lot and the market price kindly continued up to 113.68.

Following the rules of exit strategy №1 (more about this later), we closed the second lot at a price of 113.60 which gave us a profit of 40 pips or $360.

The result: after a grueling 6 hours we earned $610 - about 2.5 times more then the plan.

We have looked at the Money Management Rules for the **5 EMAs FOREX System**. Now we need to know about the "tools" used for making trades.

What Tools Are Used In This System?

We are going to use the following indicators:

- Trend lines of support and resistance
- Exponential Moving Averages
- Stochastic Oscillator
- MACD
- RSI
- Williams' Percentage Range

These are all the tools we need for to make this work. Nothing more. NO difficult (exotic) indicators and intricate calculations.

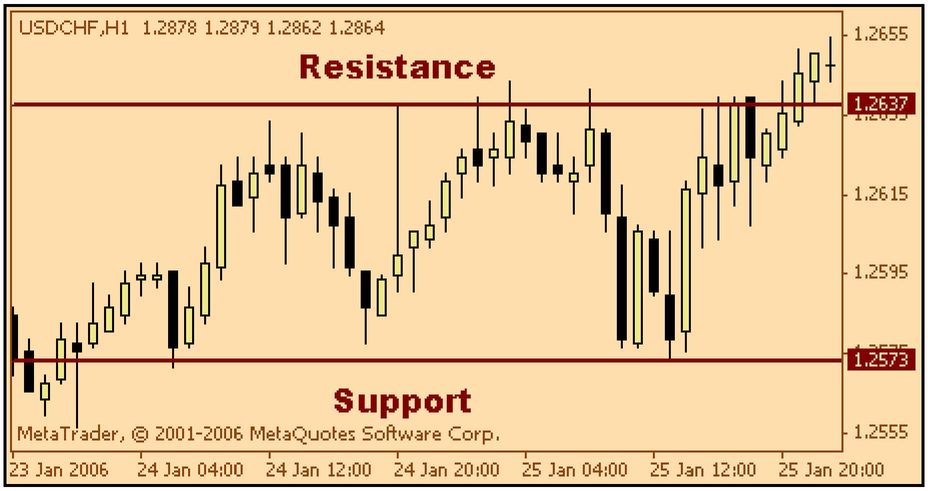
Description of Technical Indicators used in the System

Here I'm going to describe the technical indicators used in the system.

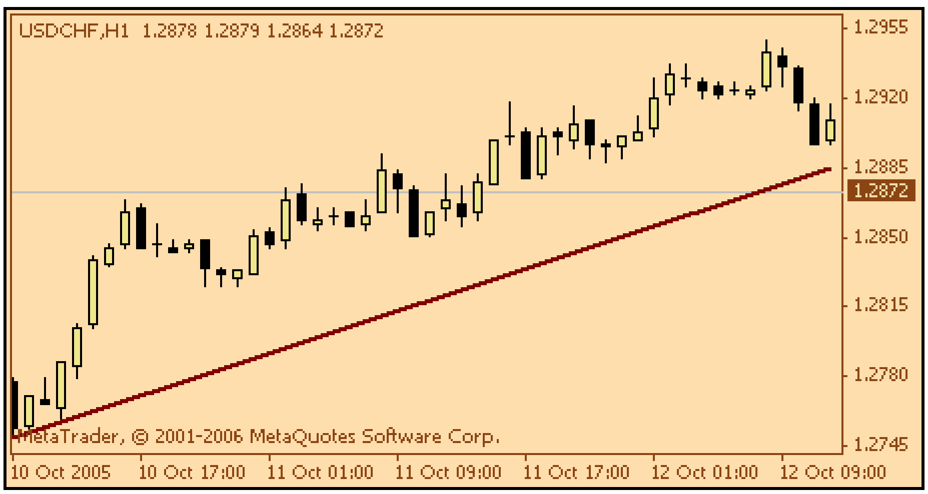
Support and Resistance

Think of prices for financial instruments as a result of a head-to-head battle between a bull (the buyer) and a bear (the seller).

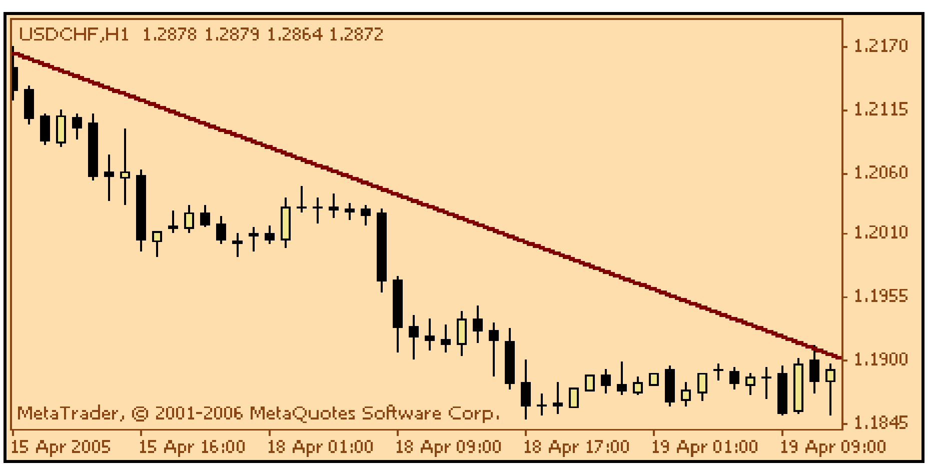
Bulls push prices higher, and bears lower them. The direction that prices actually move shows who is winning the battle.



Flat or Sideways Trend



Up Trend



Down Trend

Support is a level at which bulls (i.e. buyers) take control over the prices and prevent them from falling lower.

Resistance, on the other hand, is the point at which sellers (bears) take control of prices and prevent them from rising higher. The price at which a trade takes place is the price at which a bulls and bears agree to do business. It represents the consensus of their expectations.

Support levels indicate the price where the majority of investors believe that prices will move higher.

Resistance levels indicate the price at which the majority of investors feel prices will move lower.

Investor expectations, however, change with time, and they often do so abruptly. The development of support and resistance levels is probably the most noticeable and re-occurring event on price charts.

The breaking-through of support/resistance levels can be triggered by fundamental changes that are above or below an investor's expectations (e.g. changes in earnings, management, competition, etc.) or by self-fulfilling prophecy (investors buy as they "see" prices rise). The cause is not as significant as the effect: new expectations lead to new price levels. There are also support/resistance levels which are more emotional.

Supply and demand

There is nothing mysterious about support and resistance: it is classic supply and demand. Remembering your 'Economics 101' class, supply-demand lines show what the supply and demand will be at a given price.

The supply line shows the quantity (i.e. the number of shares) that sellers are willing to supply at a given price. When prices increase, the quantity of sellers also increases as more investors are willing to sell at these higher prices.

The demand line shows the number of shares that buyers are willing to buy at a given price. When prices increase, they decrease the quantity of investors that are willing to buy at the higher prices.

At any given price, a supply/demand chart shows how many buyers and sellers are in a market. In a free market, these lines are continually changing. Investors' expectations change, and so do the prices buyers and sellers feel are acceptable.

A breakout above a resistance level is evidence of an upward shift in the demand line as more buyers become willing to buy at higher prices. Similarly, the failure of a support level shows that the supply line has shifted downward.

The foundation of most technical analysis tools is rooted in the concept of supply and demand. Charts of prices for financial instruments give us a superb view of these forces in action.

Traders' remorse

After a support/resistance level has been broken through, it is common for traders to ask themselves to what extent new prices represent the facts.

For example, after a breakout above a resistance level, buyers and sellers may both question the validity of the new price and may decide to sell. This creates a phenomenon that is referred to as "traders' remorse": prices return to a support/resistance level following a price breakout.

The effect on prices following this remorseful period is crucial. One of two things can happen: either the consensus of expectations will be that the new price is not warranted, in which case prices will move back to their previous level; or investors will accept the new price, in which case prices will continue to move in the direction of the break-through.

In some cases, immediately following traders' remorse, the consensus of expectations is that a new higher price is not warranted, a classic "bull trap" (or false breakout) is created. For example, the prices broke through a certain resistance level (luring in a herd of bulls who expected prices to move higher), and then prices dropped back to below the resistance level leaving the bulls holding overpriced stock.

Similar sentiment creates a “bear trap”. Prices drop below a support level long enough to get the bears to sell (or sell short) and then bounce back above the support level leaving the bears out of the market.

The other thing that can happen following traders’ remorse is that investors’ expectations may change causing the new price to be accepted. In this case, prices will continue to move in the direction of the penetration.

A good way to quantify expectations following a breakout is with the volume associated with the price breakout. If prices break through the support/resistance level with a large increase in volume and the traders’ remorse period is on relatively low volume, it implies that the new expectations will rule (a minority of investors are remorseful).

Conversely, if the breakout is on moderate volume and the "remorseful" period is on increased volume, it implies that very few investor expectations have changed and a return to the original expectations (i.e. original prices) is warranted.

Resistance becomes support

When a resistance level is successfully broken through by a price, this level becomes a support level. Similarly, when a support level is successfully broken through by a price, this level becomes a resistance level.

The reason for this is that a new "generation" of bulls appears who refused to buy when prices were low. Now they are anxious to buy at any time the prices return to the previous level.

Similarly, when prices drop below a support level, that level often becomes a resistance level that prices have a difficult time breaking through.

When prices approach the previous support level, investors seek to limit their losses by selling.

Moving Averages (MAs)

In order to understand what an EMA is, we first need to know about a simple moving average (MA).

The Moving Average Technical Indicator shows the mean instrument price value for a certain period of time. When one calculates the moving average, one "averages out" the instrument price for this time period. As the price changes, its moving average either increases, or decreases.

There are four different types of moving averages: Simple (also referred to as Arithmetic), Exponential, Smoothed and Linear Weighted. Moving averages may be calculated for any sequential data set, including opening and closing prices, highest and lowest prices, trading volume or any other indicators. It is often the case when double moving averages are used.

The only reason why moving averages of different types diverge considerably from each other is if weight coefficients, which are assigned to the latest data, are different. In this example we are talking about a simple moving average, all prices for the time period in question are equal in value. Exponential and Linear Weighted Moving Averages attach more value to the latest prices.

The most common way to interpret the price moving average is to compare its dynamics to the price action. When the instrument price rises above its moving average, a buy signal appears. If the price falls below its moving average, what we have is a sell signal.

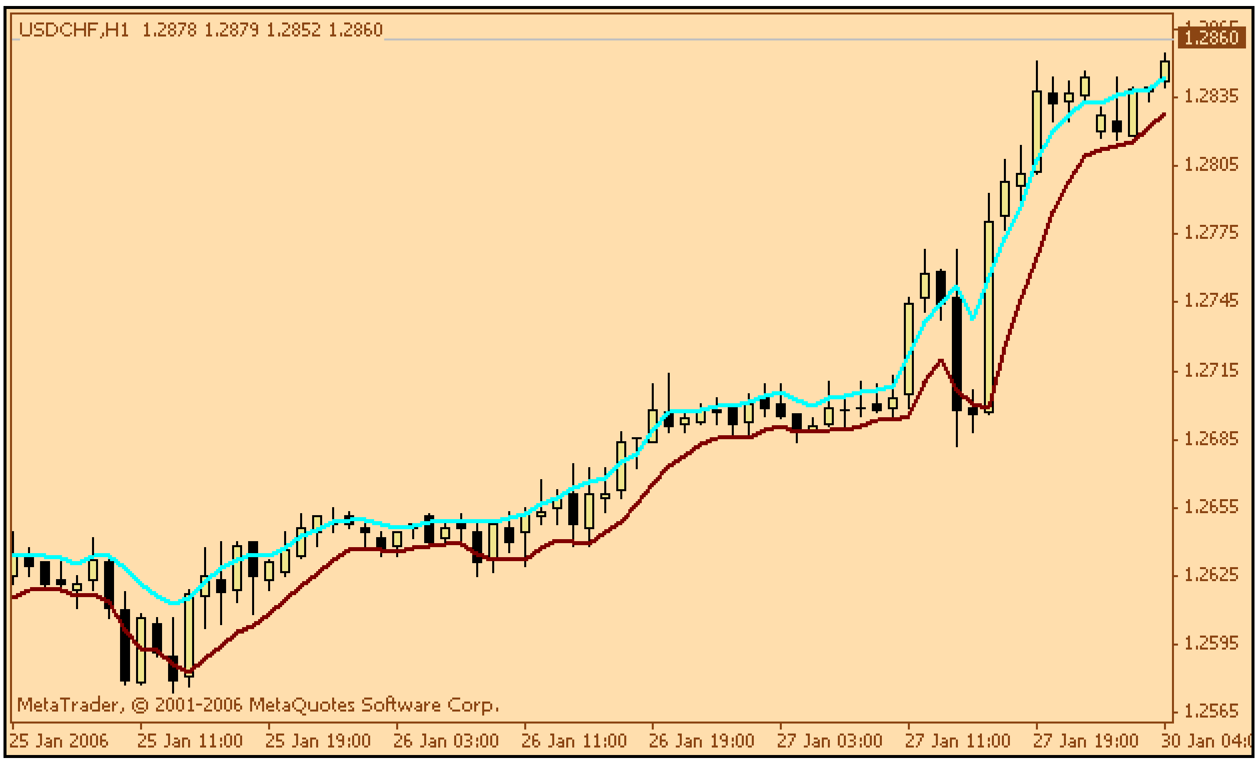
This trading system, which is based on the moving average, is not designed to provide entries into the market right at its lowest points, and exits right on the peaks. It allows traders to act according to the following trend: to buy soon after the prices reach the bottom and to sell soon after the prices have reached their peak.

Moving averages may also be applied to indicators. This is where the interpretation of indicator moving averages is similar to the interpretation of price moving averages: if the indicator rises above its moving average, it indicates that the ascending indicator movement is likely to continue: if the indicator falls below its moving average, it indicates that it is likely to continue going downward.

Exponential Moving Average (EMA)

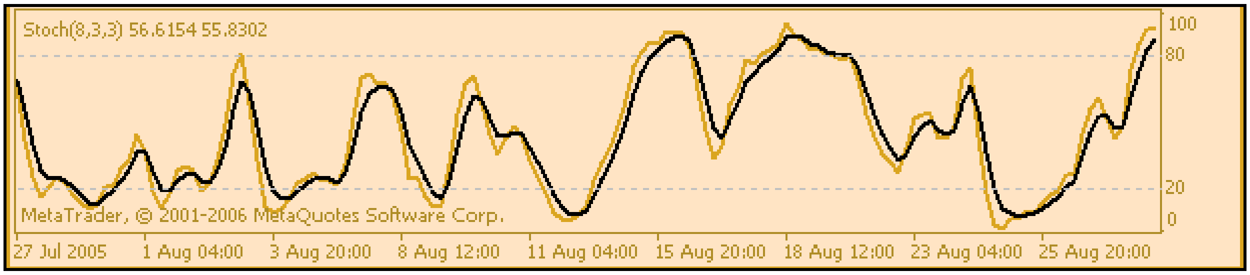
An exponentially smoothed moving average is calculated by adding the moving average of a certain share of the current closing price to the previous value. With exponentially smoothed moving averages, the latest prices are of more value.

For our trading system we'll be using a 5 period EMA of both the Lows and Highs of the price bars as support and resistance levels.



Two 5 Period EMAs: one of the Highs and one of the Lows

Stochastic Oscillator



Stochastic Oscillator

The Stochastic Oscillator Technical Indicator compares where a security's price closed relative to its price range over a given time period.

The Stochastic Oscillator is displayed as two lines. The main line is called %K. The second line, called %D, is a Moving Average of %K.

The %K line is usually displayed as a solid line and the %D line is usually displayed as a dotted line.

There are several ways to interpret a Stochastic Oscillator.

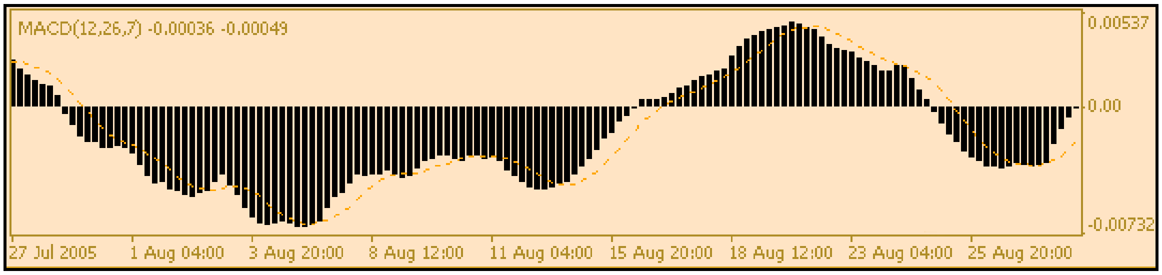
Three popular methods include:

- Buy when the Oscillator (either %K or %D) falls below a specific level (e.g. 20) and then rises above that level. Sell when the Oscillator rises above a specific level (e.g. 80) and then falls below that level;
- Buy when the %K line rises above the %D line and sell when the %K line falls below the %D line;
- Identifying divergences. For instance: where prices are making a series of new highs and the Stochastic Oscillator is failing to surpass its previous highs.

We'll be using Stochastic Oscillator for:

- finding divergence with the price of a currency pair
- indicating an alert for opening a trade position

(MACD) Moving Average Convergence/Divergence

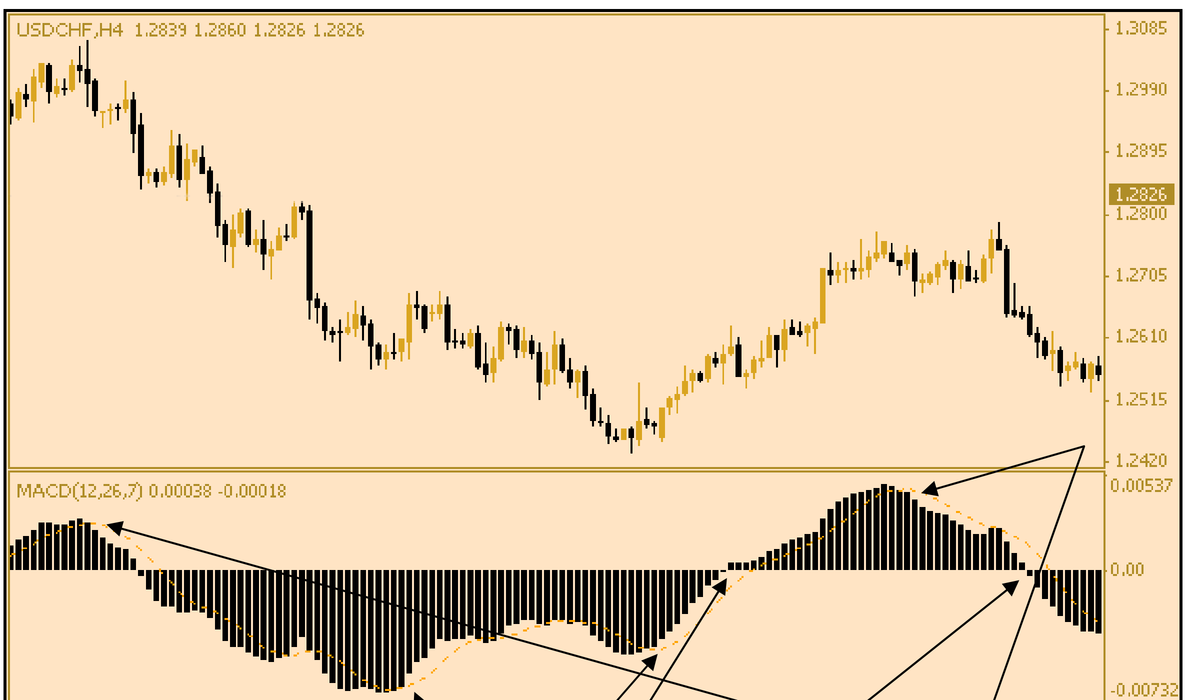


MACD

The MACD proves most effective in wide-swinging trading markets.

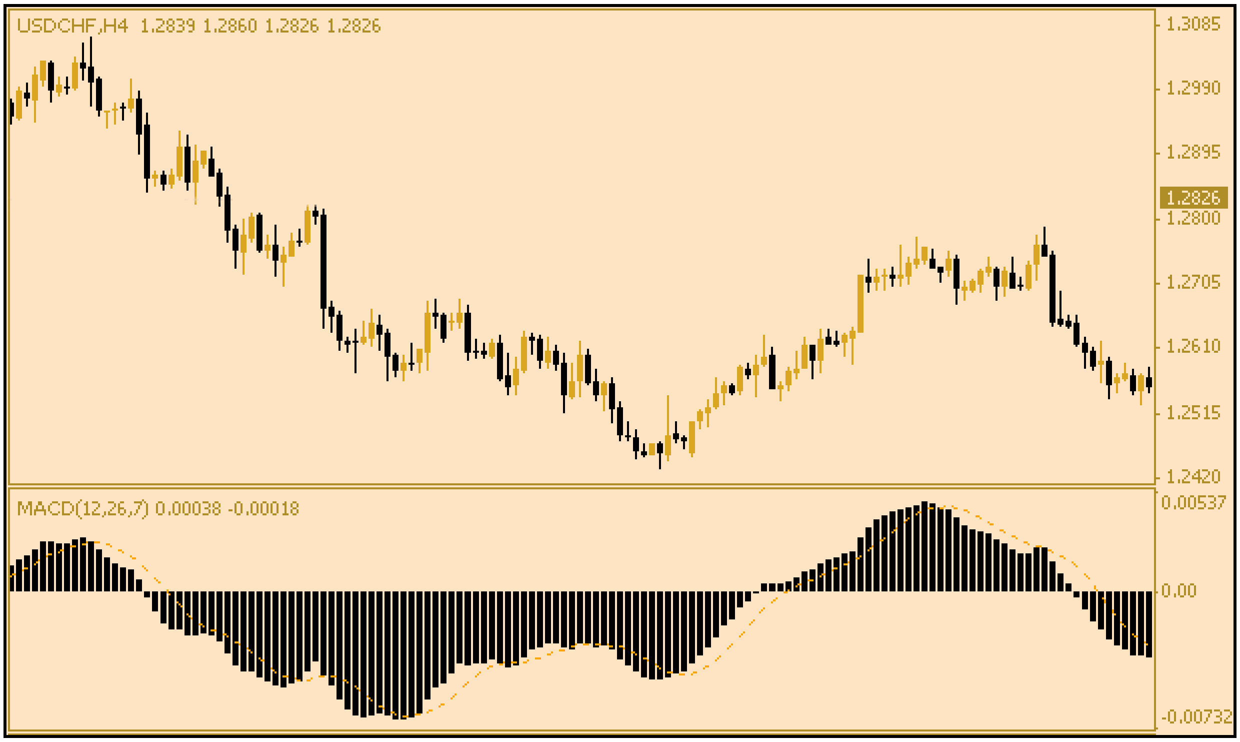
There are three popular ways to use the Moving Average Convergence / Divergence: crossovers, overbought/oversold conditions and divergences.

Crossovers



The basic MACD trading rule is to sell when the MACD falls below its signal line. Similarly, a buy signal occurs when the Moving Average Convergence/Divergence rises above its signal line. It is also popular to buy/sell when the MACD goes above/below zero.

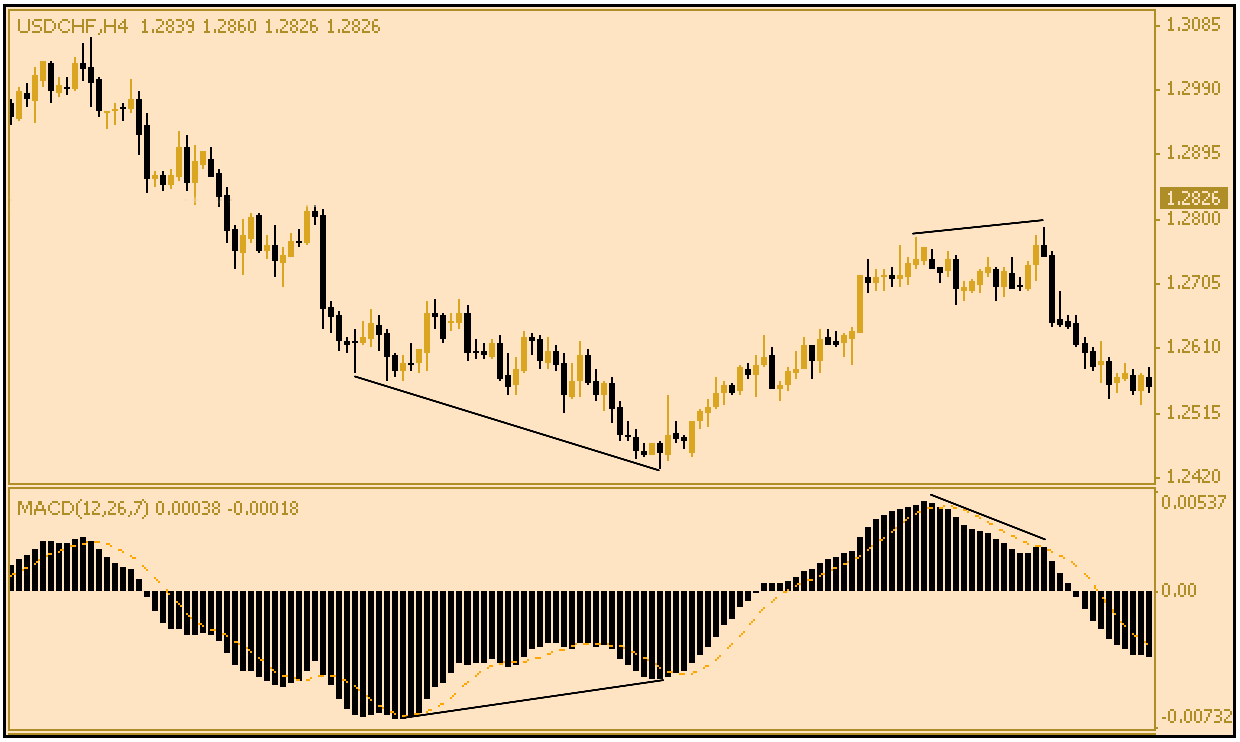
Overbought/oversold conditions



The MACD is also useful as an overbought/oversold indicator.

When the shorter moving average pulls away dramatically from the longer moving average (i.e. the MACD rises), it is likely that the security price is overextending and will soon return to more realistic levels.

Divergence



An indication that an end to the current trend may be near occurs when the MACD diverges from the security.

A bullish divergence occurs when the Moving Average Convergence / Divergence indicator is making new highs while prices fail to reach new highs.

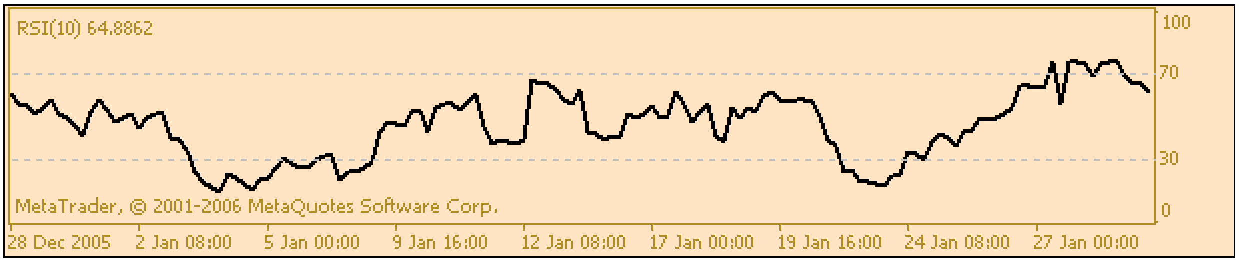
A bearish divergence occurs when the MACD is making new lows while prices fail to reach new lows.

Both of these divergences are most significant when they occur at relatively overbought/oversold levels.

We'll be using MACD for:

- finding divergence with the price of a currency pair
- indicating an alert for opening a trade position

(RSI) Relative Strength Index Technical Indicator



Relative Strength Index

The Relative Strength Index Technical Indicator (RSI) is a price-following oscillator that ranges between 0 and 100.

When Wilder introduced the Relative Strength Index, he recommended using a 14-day RSI.

Since then, the 9-day and 25-day Relative Strength Index indicators have also gained popularity.

A popular method of analyzing the RSI is to look for a divergence in which the security is making a new high, but the RSI is failing to surpass its previous high. This divergence is an indication of an impending reversal.

When the Relative Strength Index then turns down and falls below its most recent trough, it is said to have completed a "failure swing". The failure swing is considered a confirmation of the impending reversal.

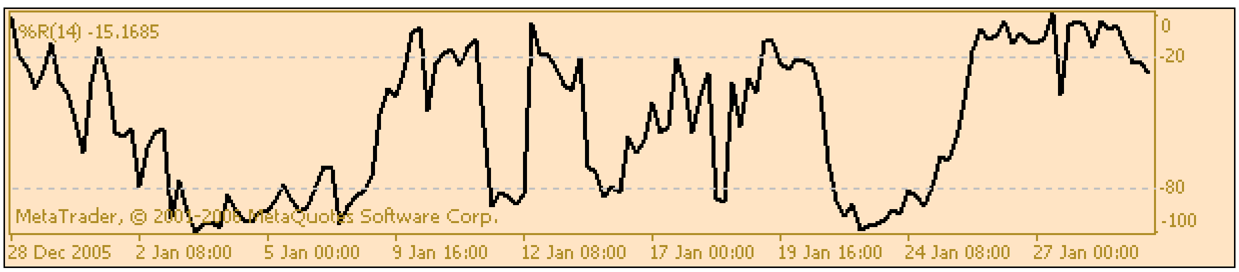
Ways to use Relative Strength Index for chart analysis:

- **Tops and bottoms.** The Relative Strength Index usually tops out above 70 and bottoms out below 30. It normally forms these tops and bottoms before the underlying price chart;
- **Chart Formations.** The RSI often forms chart patterns such as head and shoulders or triangles that may or may not be visible on the price chart;

- **Failure swing** (Support or Resistance penetrations or breakouts) This is where the Relative Strength Index surpasses a previous high (peak) or falls below a recent low (trough);
- **Support and Resistance levels.** The Relative Strength Index shows, sometimes more clearly than prices themselves, levels of support and resistance.
- **Divergences.** As discussed above, divergences occur when the price makes a new high (or low) that is not confirmed by a new high (or low) in the Relative Strength Index. Prices usually correct and move in the direction of the RSI.

We'll be using Relative Strength Index as a secondary confirmative indicator for entries and exits of trades.

Williams' Percent Range Technical Indicator (%R)



Williams' Percent Range

Williams' Percent Range Technical Indicator (%R) is a dynamic technical indicator which determines whether the market is overbought or oversold.

Williams' %R is very similar to the Stochastic Oscillator. The only real differences are that %R has an upside down scale and the Stochastic Oscillator has internal smoothing.

To show the indicator in this upside down fashion, you need to place a minus symbol before the Williams Percent Range values (e.g. -30%).

Indicator values ranging between -80 and -100% indicate that the market is oversold. Indicator values ranging between 0 and -20% indicate that the market is overbought.

As with all overbought/oversold indicators, it is best to wait for the security's price to change direction before placing your trades. For example, if an overbought/oversold indicator is showing an overbought condition, it is wise to wait for the security's price to turn down before selling the security.

An interesting phenomenon of the Williams Percent Range indicator is its uncanny ability to anticipate a reversal in the underlying security's price. The indicator almost always forms a peak and turns down a few days before the security's price peaks and turns down.

Likewise, Williams Percent Range usually creates a trough and turns up a few days before the security's price turns up.

We will be using Williams' Percent Range as an overbought/oversold indicator which will be confirming the overbought/oversold condition of the corresponding currency.

Brokerage and Trade Terminal

Of course, in order to trade FOREX we need a good brokerage and a good Trade Terminal (Workstation).

Recommended Brokerage

To access the FOREX market, a trader requires an account (ideally a live account!) with a good brokerage.

During my career as a trader and analyst, the best type of brokerage I have found is a non-dealing brokerage.

Of course, even within the realms of non-dealing brokerages, the quality can vary tremendously and, for that reason, I'd like to recommend one that I personally rank very highly. You have the option of opening a live account and also a demo account so that you can get some experience with the strategies you will learn later in this book.

If you are just beginning with FOREX then simply go for the demo account but, if you are more experienced, then I would suggest that you open a live account too, as trading with a quality brokerage will make your overall experience that much better.

Link to Recommended Brokerage

Click on the image above to access your personal "Welcome" page.

Decide on the type of account(s) you wish to open and then click the appropriate links below:

» Open a Demo Account

» Open a Live Account

» Deposit Funds into your Live Account

» Withdraw Funds from your Live Account

» Download Forms

Assuming that you chose the Demo Account option, the screen will change to the "Request Demo Account" screen.

Once you have submitted your details (ensure your e-mail address is correct!) you will receive your Demo Account activation details.

You will also have the opportunity to download the InterBank FX version of MetaTrader4 - this ***free*** application combines your charting program and your trading platform in one easy-to-use system.

MetaTrader4 is very intuitive to use, allows trades to be placed directly from the charts, supports many languages, has a comprehensive in-built help system plus many more features than I could possibly have time to describe in this e-book.

About MetaTrader 4

MetaTrader 4 is an on-line trading system designed to provide broker services to customers for FOREX, Futures and CFD markets. This is a "whole-cycle" complex, which means that you will not need any other software to organize your broker services if using MetaTrader 4.

More about MT 4 can be found here:
http://www.metaquotes.net/metatrader

There are several types of MT 4 software but the main variants are:

- **Terminal MetaTrader4**. You will learn about this version of MetaTrader4 in this book
- **MetaTrader4 Mobile**. Maintains technical analysis, charting, news and offers live trading via PDAs from almost anywhere in the world.

  Mobile trading (m-trading) — controlling a trading account via mobile devices such as cellular phones or PDAs (Personal Digital Assistants). Wireless access technologies WAP and GPRS provide access to the Internet.

  Unfortunately, MetaTrader4 Mobile is not free software but you can read about it here if you feel it may be useful for you:
  http://www.metaquotes.net/mobile_terminals

Downloading and Installing MetaTrader 4

Downloading MetaTrader 4

Instructions for downloading MetaTrader 4 will be sent to you in a confirmation e-mail after registering for your demo account.

> ***Note:*** *MT4 is compatible with Microsoft Windows 98/ME/2000/XP/2003. MetaTrader is* ***not*** *compatible with Windows 95!*

Installing MetaTrader 4

After downloading the installation file (either ibsetup4.exe or mt4setup.exe) to your PC, launch it and install the program, following the instructions as they appear on your screen.

When launching the program for the first time, you will see a window containing a registration form; after you have completed it, you will automatically be issued with a demo account.

Configuring MetaTrader 4

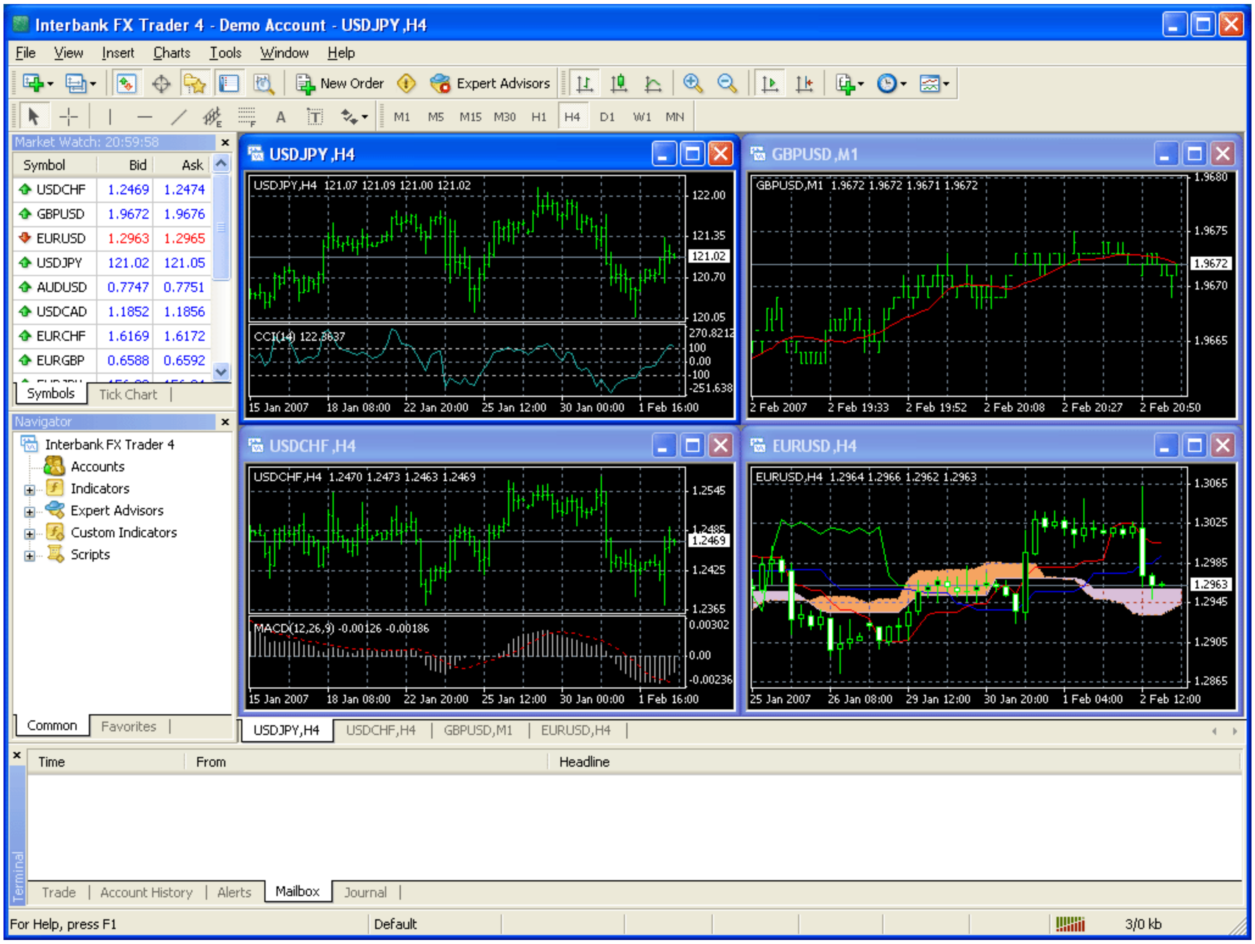
The trading system we use has been created with MetaTrader 4. Keep in mind that the same technical indicators and settings may give different results on different trade terminals and/or with different technical analysis software.

If you particularly want to trade with a different platform (or your current brokerage doesn't support MetaTrader 4) then you can open a demo account with InterBank FX and run both systems in parallel while you identify any variations between the two systems.

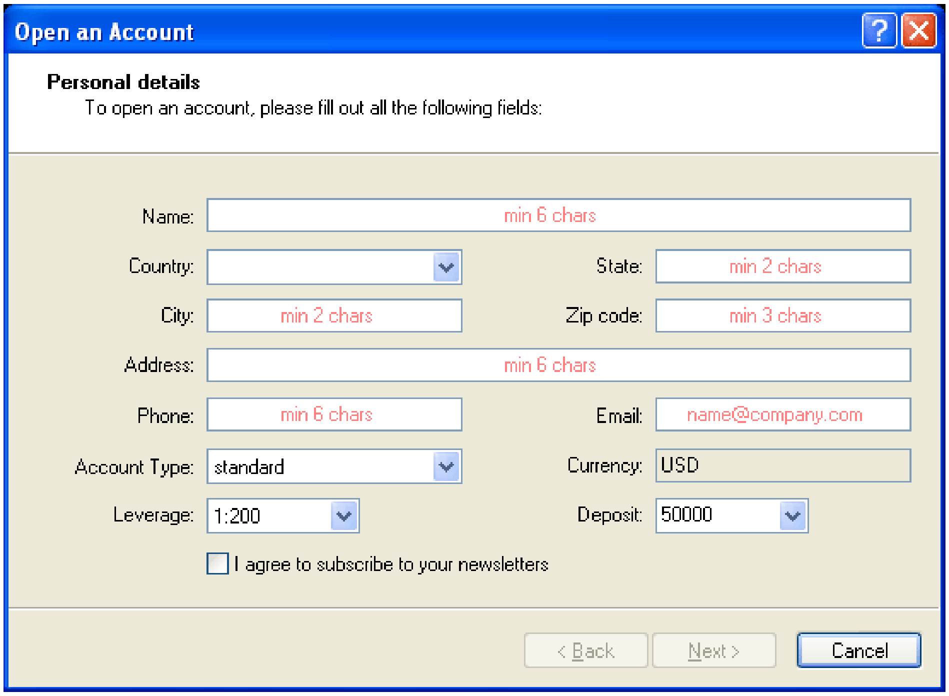
Now we'll move on to configuring MetaTrader 4 to look as it appears in the following screenshots.

Starting MetaTrader 4 for the first time

After first starting MT4, you will see a screen similar to the picture below:

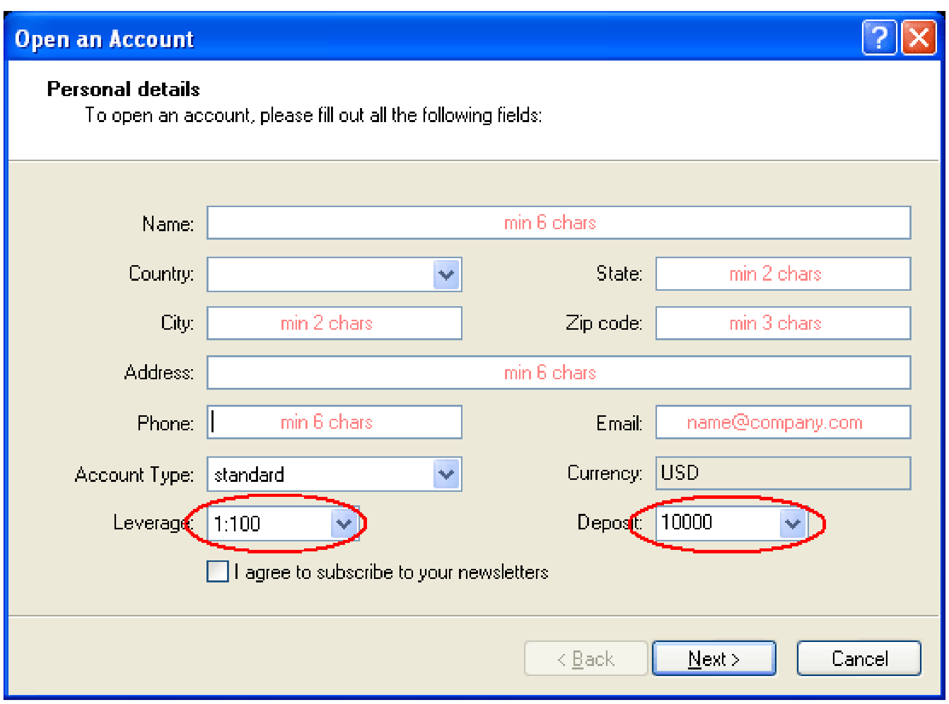


Then, in the middle of the workspace, will be the following registration window:



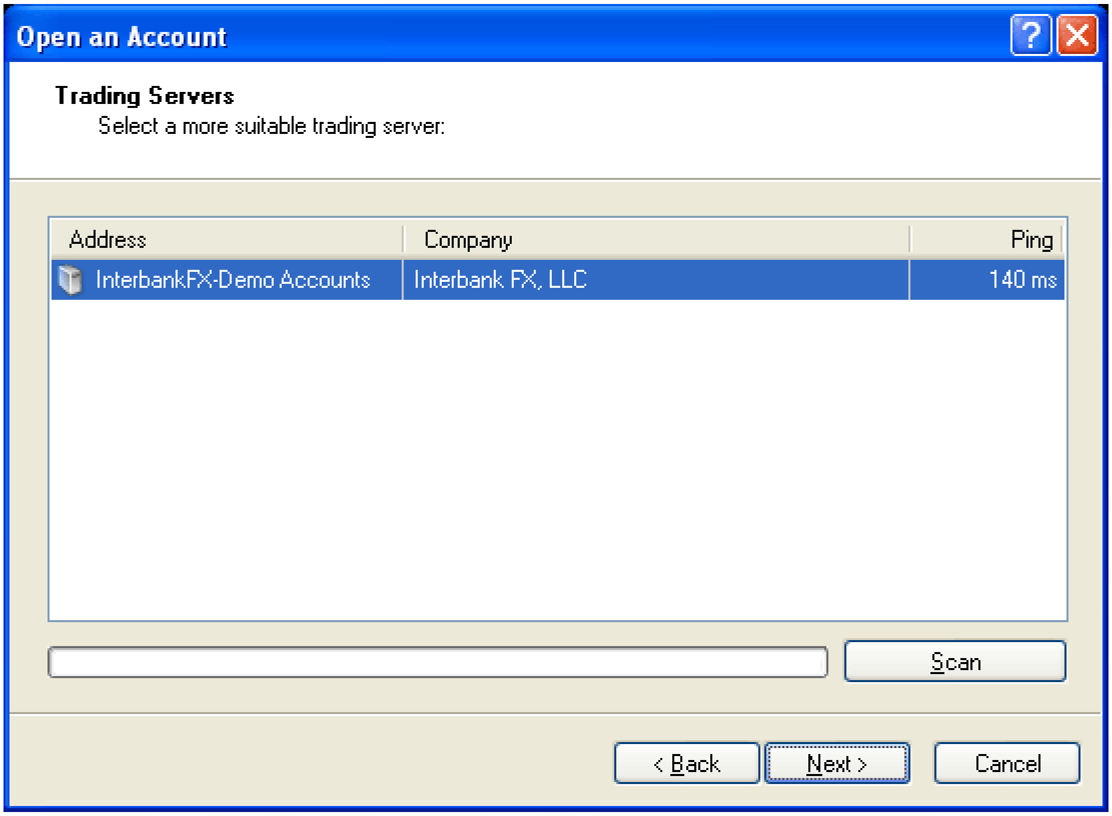
Opening a demo account

The "**Open an Account**" dialog enables you to open a demo account.

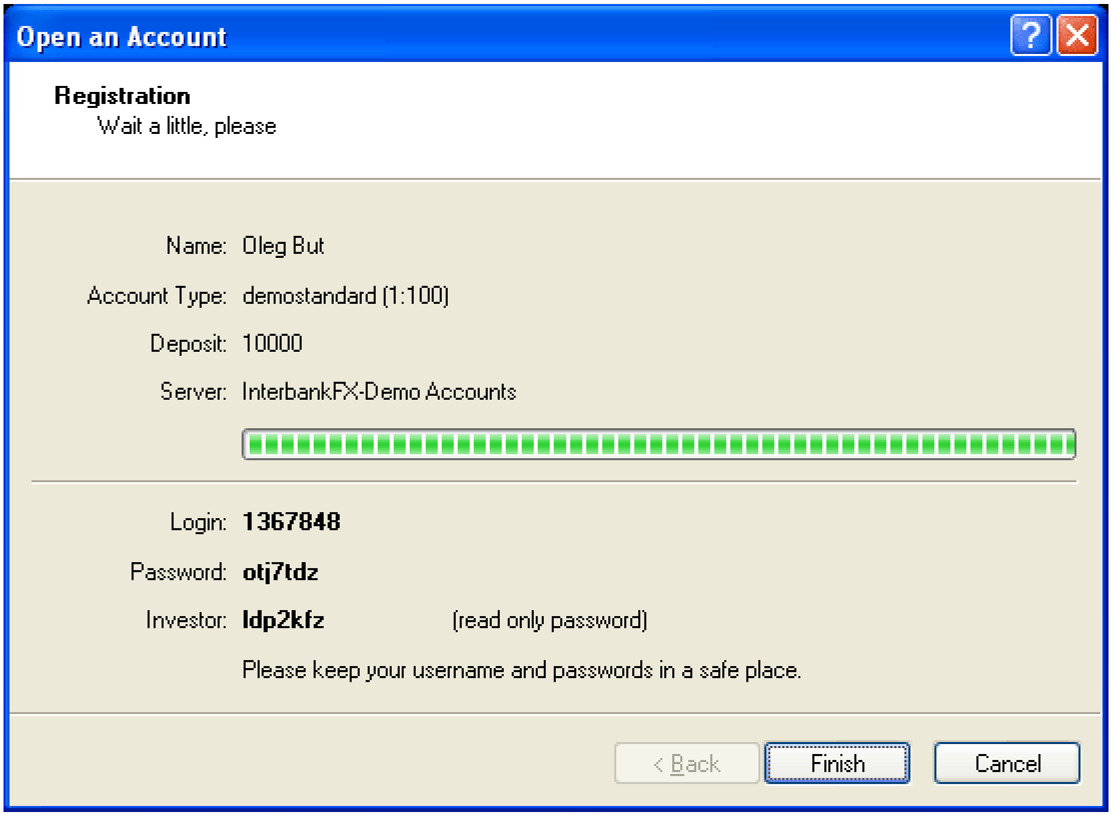


You will probably want to adjust the Leverage and Deposit amounts to more usual values, especially if you are just learning about FOREX as it will enable you to follow the examples in this course more easily.

Once you've entered your details, click the "**Next**" button to move on to the Trading Servers dialog:



Click the "**Next**" button to select the default server:



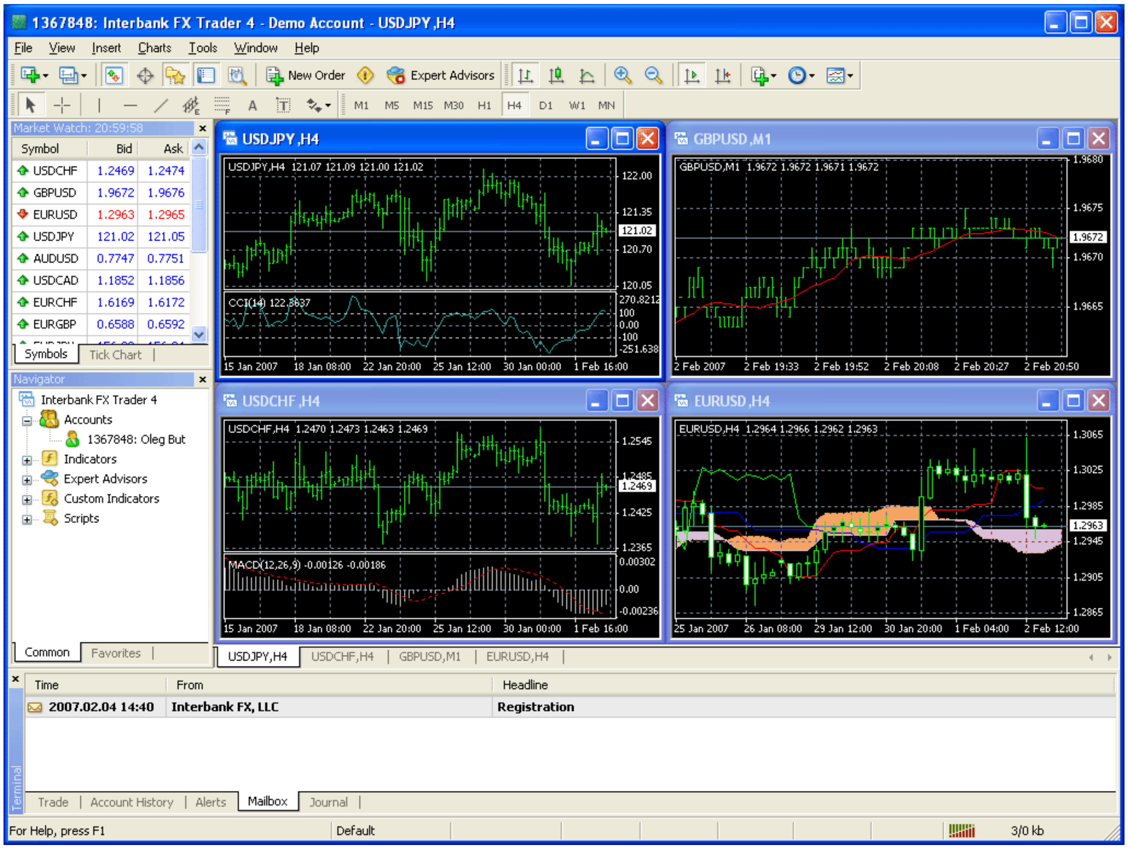
And finally, click the "**Finish**" button.

That's it! You've created your first demo account.

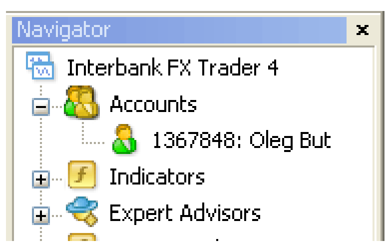
Now you just need to configure the layout of **MetaTrader 4** - I'll show you how to do this and also how to apply and use the indicators we need.

Adjusting the workspace of MetaTrader 4

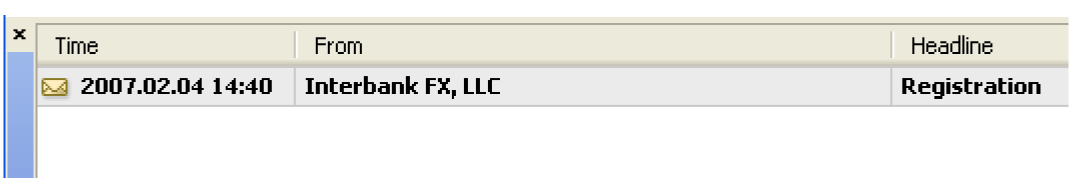
By now, you should see the workspace of MT4 looking a bit like this:



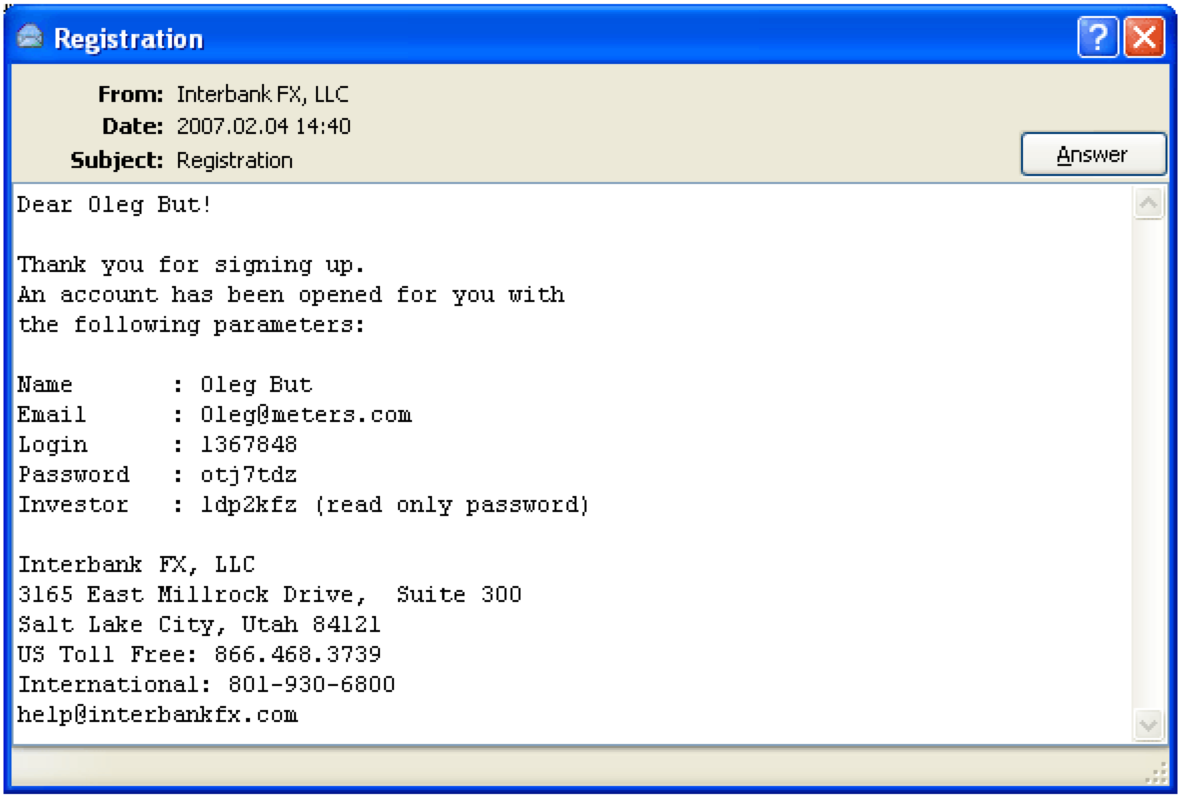
As you can see in the left hand "**Navigator**" panel, the account details have appeared.



At the same time, below the workspace in the "**Mailbox**" page, you can see the message from the brokerage. It will contain details of your demo account registration:



If you double-click (with your left mouse button) on the title of the message then it will open and you will be able to read it:



Registration

From: Interbank FX, LLC
Date: 2007.02.04 14:40
Subject: Registration

Answer

```
Dear Oleg But!

Thank you for signing up.
An account has been opened for you with
the following parameters:

Name       : Oleg But
Email      : Oleg@meters.com
Login      : 1367848
Password   : otj7tdz
Investor   : ldp2kfz (read only password)

Interbank FX, LLC
3165 East Millrock Drive,  Suite 300
Salt Lake City, Utah 84121
US Toll Free: 866.468.3739
International: 801-930-6800
help@interbankfx.com
```

In future, you can refer to this message to remind yourself of your account details.

Setting up Chart Windows and Indicators

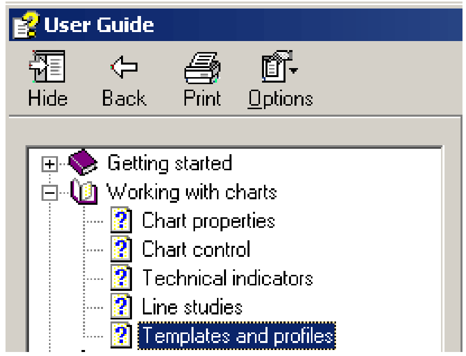
You are looking at the default appearance of the chart windows.

We do not want to use the default profile so we need to create our own, personal one.

To begin with, we need to create "**Templates**" and, after that, by specifying these "**Templates**", create our own "**Profile**".

To save some time, and avoid cluttering this book with the full process, we'll use some existing templates: one for a 15-minute chart and one for a 60-minute chart. These "**Templates**" will help us to create our "**5emas**" profile.

For information with creating "**Templates**" and "**Profiles**", access the "**Help System**" within MT4.



Part of what we will be doing before creating a profile is adjusting the size and position of the chart windows. After that, all of our new settings will be saved automatically each time we modify the profile.

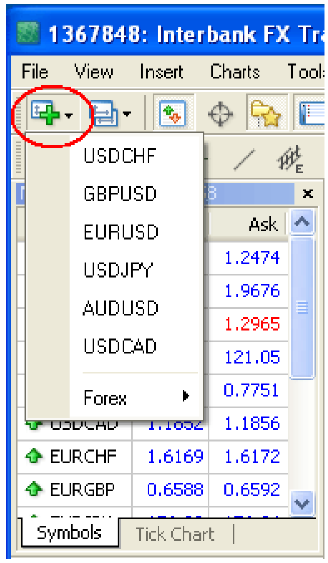
Ok! Let's start!

The first thing to consider is the size and resolution of your computer screen. If your screen is quite small or has a low resolution (anything less than 1024x768 really isn't practical for trading) then we will need to "create" some space by deleting the "GBPUSD" chart window. It really isn't required as we will be concentrating on the other three displayed currency pairs ("USDJPY", "EURUSD" and "USDCHF").

Once you have decided how many of the initial 4 charts you wish to retain, we need to create secondary copies of each. This is because we will be working with both 60-Min and 15-Min charts for each currency pair traded.

You should now we have 3 or 4 chart windows: "USDJPY", "EURUSD", "USDCHF" and possibly "GBPUSD".

Next, open a secondary chart for each of the current charts by first clicking the "New Chart" button (shown below), then selecting the required currency pair.



When you have finished, your screen will probably be a mess of charts. Not to worry – just click the "Window" menu and select "Tile Vertically".

You will then have a chart area looking something like this:

As I stated before, if you have a small or low resolution screen then you may well find the chart display to be cramped and/or difficult to read. If so, delete the “GBPUSD” charts and re-tile the window.

The other thing you will have noticed is that the charts are in no particular order. That, too, is easily remedied. The chart windows behave just like regular MS-Windows windows so you can simply drag them into the correct positions.

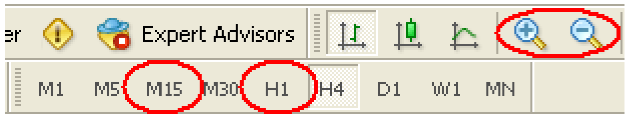
Depending on the number of charts you have displayed, you may find it better to arrange your charts either side-by-side or one-above-the-other.

Your final arrangement should look something like this:

Ok! Our chart positioning is done – the next step is to set the timeframes.

If you arranged your charts side-by-side then I suggest you make the left-hand chart of each pair your 60-minute chart. If they are one-above-the-other then make the top row your 60-minute charts.

Select each chart in turn and then click either the "H1" or "M15" button in the toolbar (you may also wish to zoom in or out for a better view).



If you haven't done so already, please download the 5 EMAs templates.

There are two pre-prepared "**MT4 Templates**":

5emas_15 - the template for 15-minute charts
5emas_60 - the template for 60-minute charts

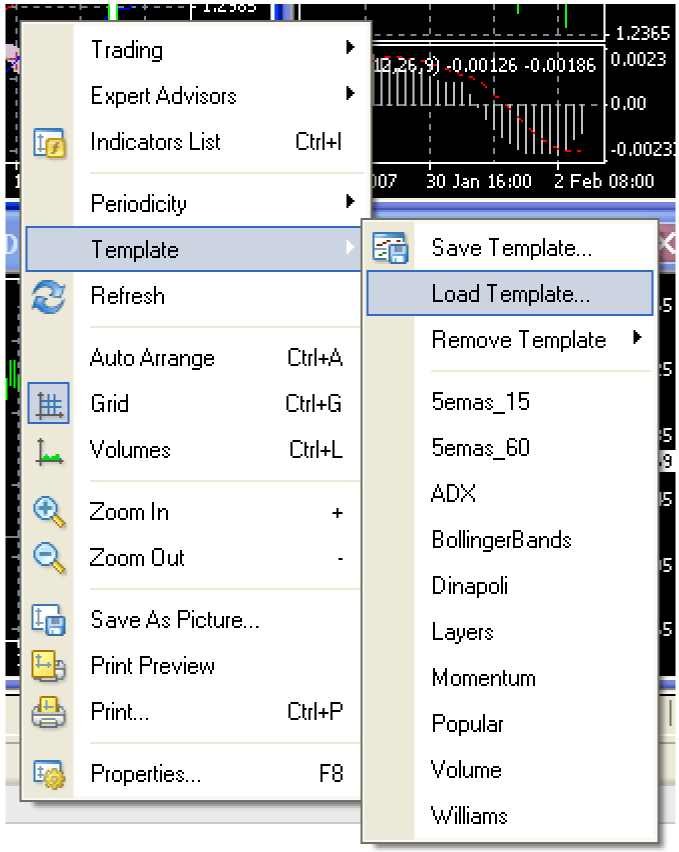
Copy both files to the 'templates' folder of your MT4 installation, typically:

C:\Program Files\Interbank FX Trader 4\templates

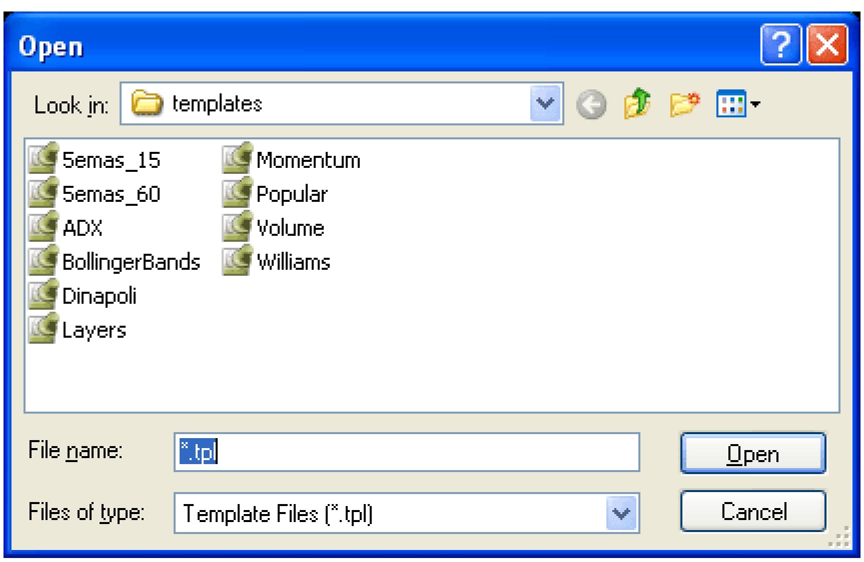
- or –

C:\Program Files\Meta Trader4\templates

For each of the charts in turn, right-click your mouse within the chart window and select **Template->Load Template** from the context menu.

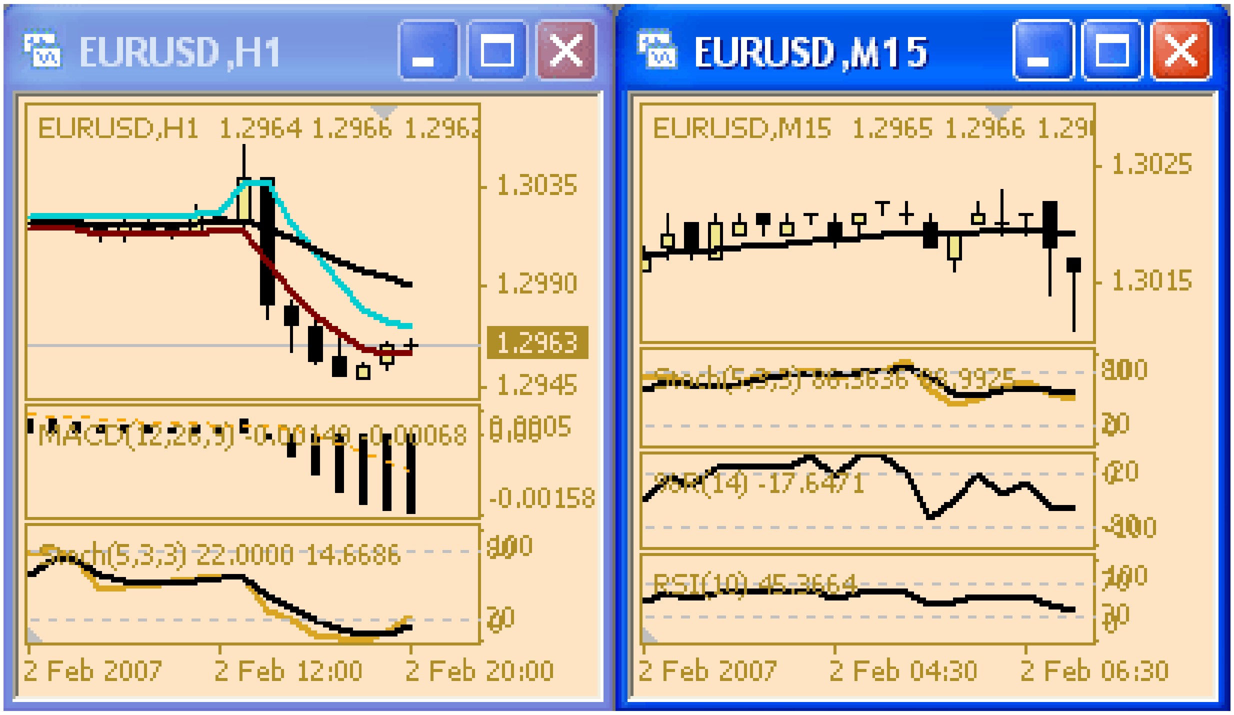


A standard Windows "Open" dialog will appear:



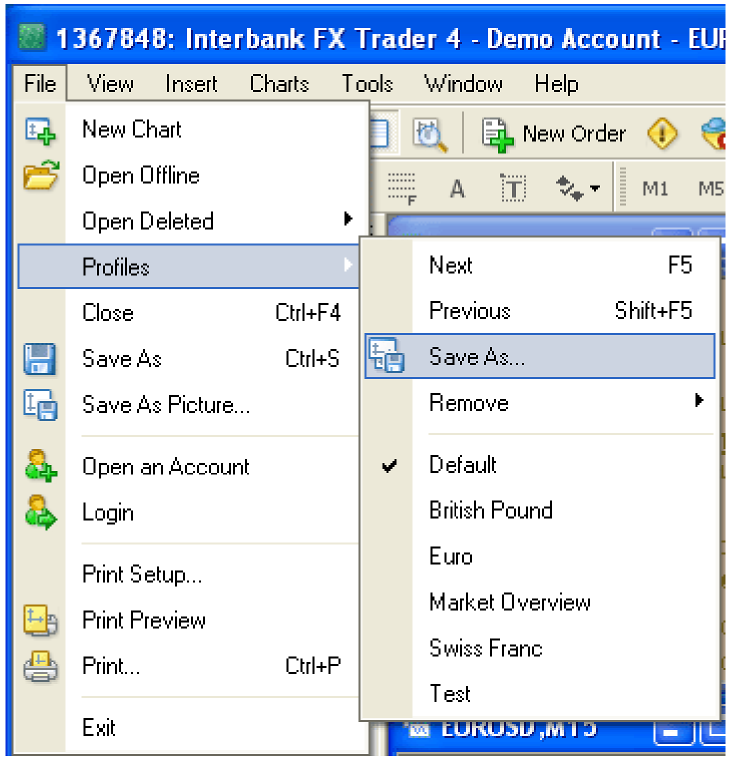
Depending upon the chart you have selected, you will need to choose the "**5emas_15.tpl**" or "**5emas_60.tpl**" template then click the "**Open**" button.

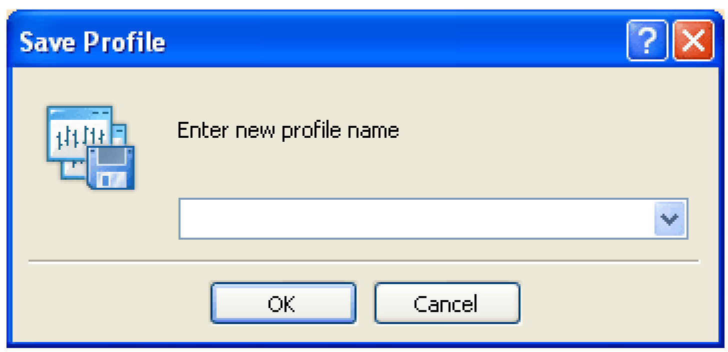
This will change the way each chart appears and will also apply the correct technical indicators for you, as you can see:



The final step is simply to save the new layout as a profile.

Click **File->Profiles->Save As...** and the following dialog will appear:





Enter the name of the profile, for example "**5EMAs**"and click "**Ok**".

Your profile is now stored and can be recalled at any time.

MetaTrader 4 configuration is now complete and we are ready to move on to the **5 EMAs FOREX System** itself.

Trading Rules for the 5 EMAs FOREX SYSTEM-"Day-Trading"

The Main Set of Rules (fundamental)

Do not trade before important fundamental news!

Please refer to the section on "**Fundamental Analysis**" for clarification.

You should be patient and wait for a market set-up that occurs after news has been released.

It is fair to assume that a news release could pull the market up or down and so you should wait for the market to pullback before looking for trade alerts to occur.

If you already have an open position that is in profit, I strongly suggest that you close it prior to any important fundamental news release.

I also suggest that you trade very carefully on Fridays and the days running up to the end of a month, quarter or year.

A little more sage advice if you are new to the FOREX markets…

Before starting to trade the **"5 EMAs FOREX SYSTEM"**, I recommend that you carefully study the following two bonus books:

- "**Keep It Simple** - 10 Common Sense Technical Tools"
- "**Active Trading** - Japanese Candlestick Charting Techniques"

Finally, ensure that you read my accompanying trading course – the **TraderBO Divergence System**.

If you are a little more experienced then you can skip the first two books but I believe the **TraderBO Divergence System** is a "Must Read" for traders of all levels as the methods of trading divergences described in it apply very much to the **"5 EMAs FOREX SYSTEM"**.

IMPORTANT! Before we go any further, I will apologize in advance for what will appear to be constant repetition. The reasons are that the rules for long and short entries/exits are simply the reverse of each other and I wanted to give you a suitable quantity of examples.

The Main Rules (technical)

Entry Rules for Short Positions:

- The MACD (1-Hr chart) must have been below the zero line for at least 3 bars.

  The earliest entry point is the 4th consecutive bar below the zero line.

- Wait for the price to touch the 5 period EMA of the Highs (turquoise line).

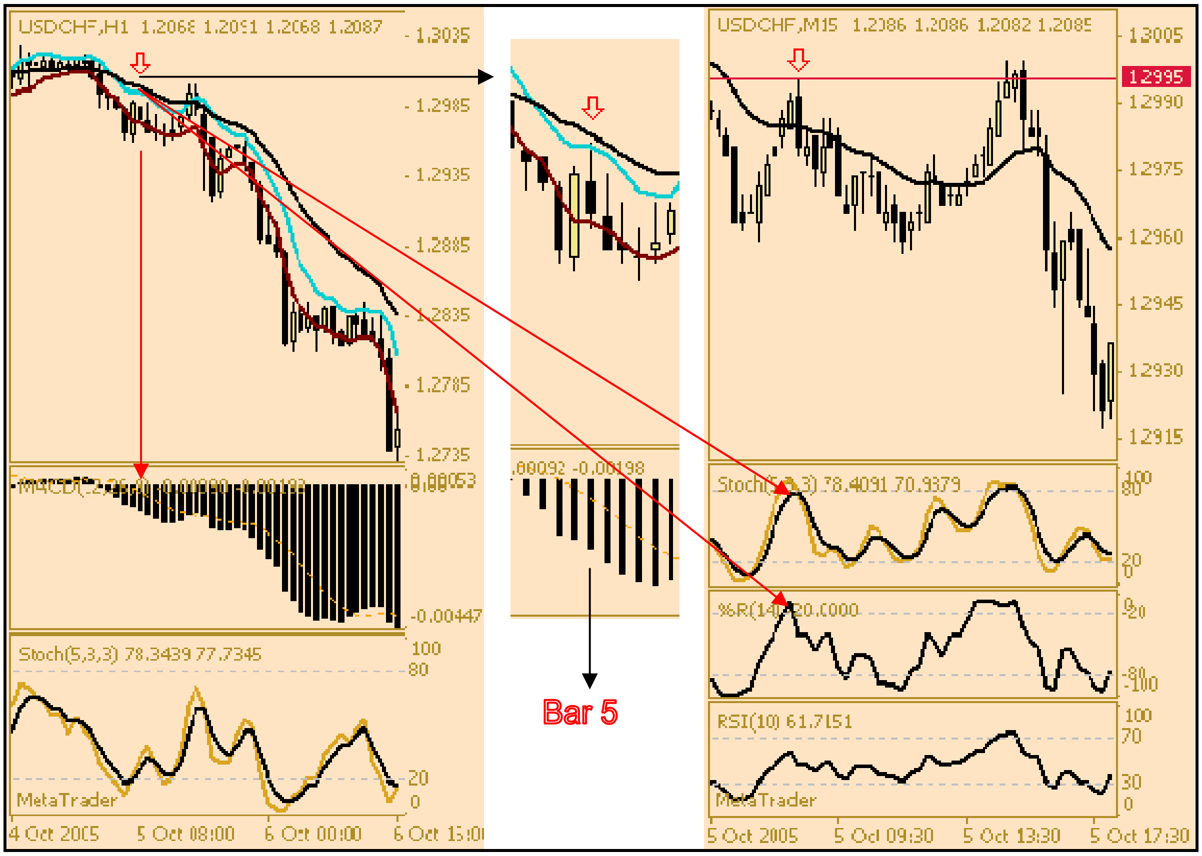
  As we can see in the illustration below, the price did not touch the turquoise line until the 5th MACD bar.

- Wait for the Stochastic on the 15-Min chart to indicate an overbought situation (value ≥80).

- Wait for the Williams' %R on the 15-Min chart to indicate an overbought situation (value ≥-20).

Additional information:

If the entry signal occurs at a time when the price is below the 20 period EMA of the Closes (black line on the 1-Hr chart) as in the illustration below, this indicates a much stronger trade alert.



Entry Rules for Long Positions:

- The MACD (1-Hr chart) must have been above the zero line for at least 3 bars.

  The earliest entry point is the 4th consecutive bar above the zero line.

- Wait for the price to touch the 5 period EMA of the Lows (maroon line).

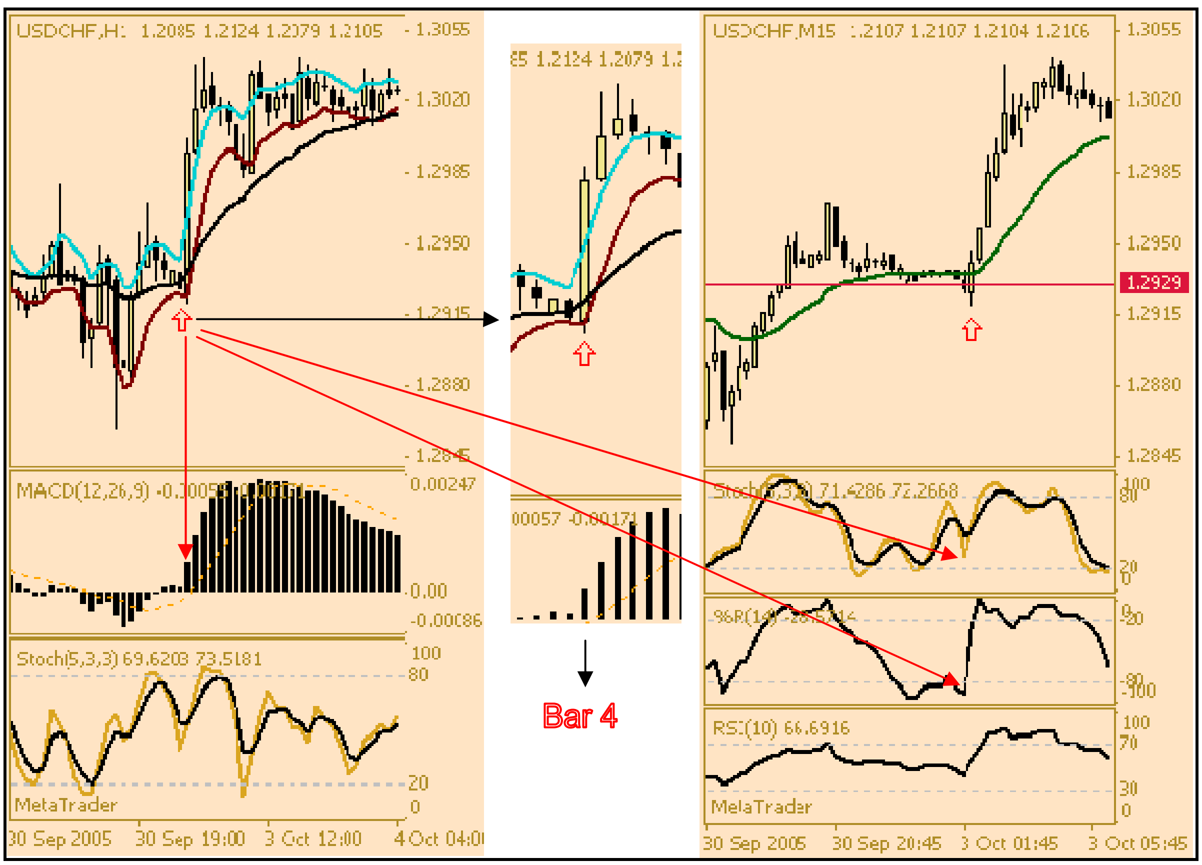
  As we can see in the illustration below, the price did not touch the maroon line until the 4th MACD bar.

- Wait for the Stochastic on the 15-Min chart to indicate an oversold situation (value ≤20).

- Wait for the Williams' %R on the 15-Min chart to indicate an oversold situation (value ≤-80).

Additional information:

If the entry signal occurs at a time when the price is above the 20 period EMA of the Closes (black line on the 1-Hr chart) as in the illustration below, this indicates a much stronger trade alert.



As you can see, understanding the rules for buy and sell alerts is very easy.

Now let's consider the rules for exiting trade positions.

There are three exit strategies for this system.

You might recognize this image from the web site. It illustrates the strategies that are mentioned (but not disclosed) on the site but now I have nothing to hide.

In the following examples, we will be opening trade positions consisting of two mini lots (remember that a mini lot = 0.1 lots). Now, let's push on and consider the exit strategies in detail:

Exit Rules for Short Positions

I've already briefly covered Exit Strategy №1 in the "General Money Management Rules for the **5 EMAs FOREX System**" section of this book but now it's time to examine it (and the two alternatives) more closely.

> ***Note**: On the next page, we'll split the image above into three parts, so that everything will be easier to understand.*

First, we need to open our position:

Open short 0.2 lots from **1.2980**, **Stop Losses** @ 45 pips = **1.3025**

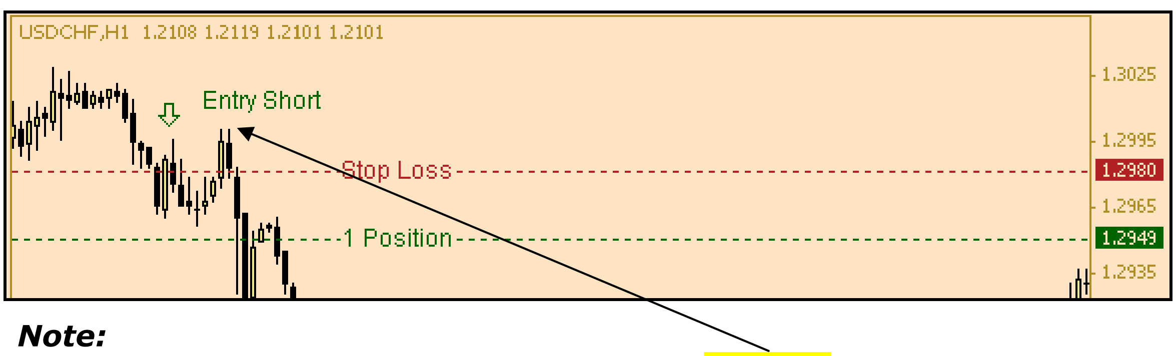
Take Profit for one mini lot @ 31 pips = **1.2949**

Exit Strategy №1 (Trailing Stop 1)

Rules

When the price reaches **1.2949**, the **Take Profit** order closes the first mini lot automatically while the second mini lot remains open.

At this point we need to move the **Stop Loss** order for the second mini lot to the entry (break-even) level, i.e. **1.2980**.



Note:
Pay close attention, please! We have a higher high/low after entering the trade. It might look like our remaining mini lot was closed by the Stop Loss, but it actually wasn't. The reason is that we only moved the Stop Loss order ***after*** *the price fell to* ***1.2949*** *(green line).*

Now, if the remaining mini lot gains another 30-35 pips (down to **1.2919-1.2914** in our case) then simply move the **Stop Loss** order the same distance.

Repeat this step each time the remaining mini lot gains an additional 30-35 pips profit until, eventually, the position will be closed by the **Stop Loss** order.

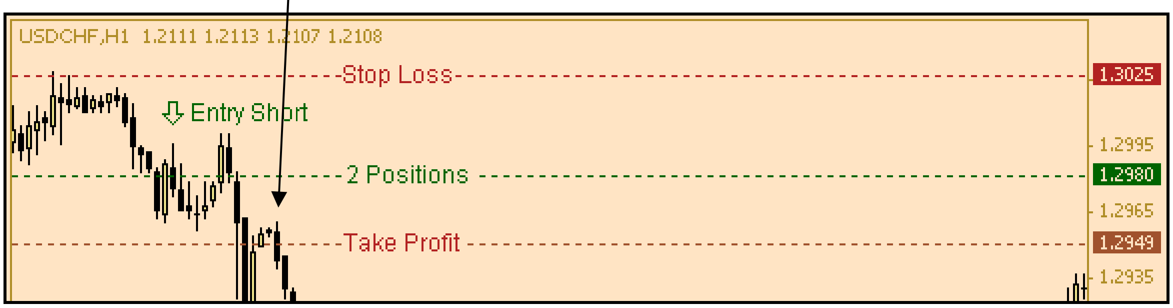
Let's look at some examples of Exit Strategy.

Exit Strategy №1 (Trailing Stop 2)

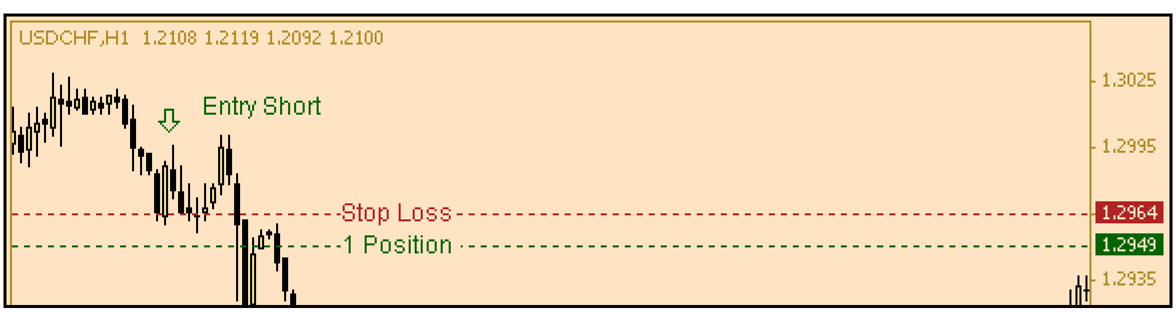
Rules

When the price reaches **1.2949**, the **Take Profit** order closes the first mini lot automatically while the second mini lot remains open.

Once the first mini lot has been automatically closed, wait until the price forms a second high.



Now move the **Stop Loss** for the second mini lot to 5 pips above the high of that candlestick i.e. to **1.2964** as the high of that candle is 1.2959.



Now, if the remaining mini lot gains another 30-35 pips (down to **1.2934-1.2929** in our case) then simply move the **Stop Loss** order the same distance.

Repeat this step each time the remaining mini lot gains an additional 30-35 pips profit until, eventually, the position will be closed by the **Stop Loss** order.

I don't believe that there is anything difficult with either version of Exit Strategy №1 and you will be pleased to know that Exit Strategy №2 is even easier!

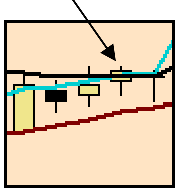
Exit Strategy №2 (Moving Averages)

This really is very easy. You simply follow the 20 period EMA of the Closes.

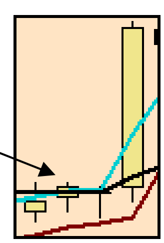
Look at the illustration below:

Rules

Keep the remaining position open until a candlestick closes above all three moving averages. Here is a magnified representation of that section of the chart:



And what happened next?...



Of course, you can always back-up this strategy by using a **Trailing Stop** which, by the way, is a feature built into **Meta Trader 4**.

Exit Strategy №3 (Using Divergences)

This would be a good time to remind you about the accompanying **TraderBO Divergence System** course which explains the main ways to use divergences in some detail.

I didn't really expect you to read it when I mentioned the course earlier so, if you haven't already, this would be an ideal opportunity!

Here we'll be using a bullish divergence to exit the remaining position.

Please look at the illustration below:

Rules

We need to watch out for divergences between the price levels and the indicators (MACD and Stochastic). In this instance, we can't see anything on the MACD but a bullish divergence is clearly visible on the Stochastic.

So, as we have a clear indication of an oversold condition, we can exit safely on this divergence.

We have now discussed three types of Exit Strategies for short positions. Now it's time to show you how those Exit Strategies are applied to Long Positions. As you would expect, they follow the same rules, only in reverse.

Exit Rules for Long Positions

***Note**: On the next page, we'll split the image above into three parts, so that everything will be easier to understand.*

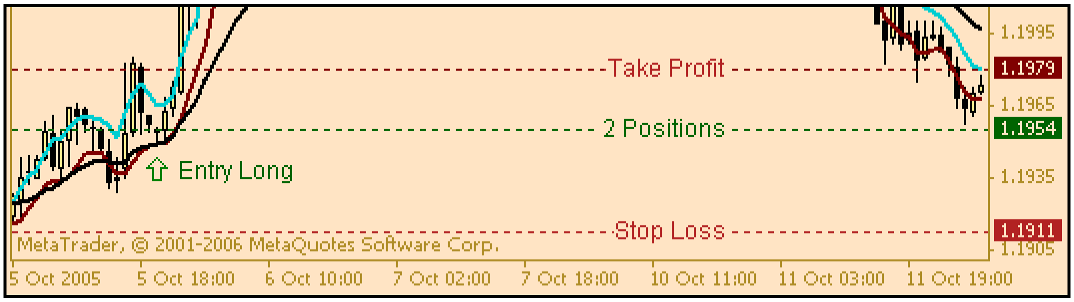
As before, we need to open our position:

Open long 0.2 lots from **1.1954**, **Stop Losses** @ 45 pips = **1.1911**

Take Profit for one position @ 25 pips = **1.1979**

***Note**: The Take Profit distance shown above is different to the Short Position examples earlier. Can you think why? Of course… because this is a GBPUSD example and the $/pip value is different! The objective with our first position is always to hit our daily profit target and use the second position for bonus profits.*

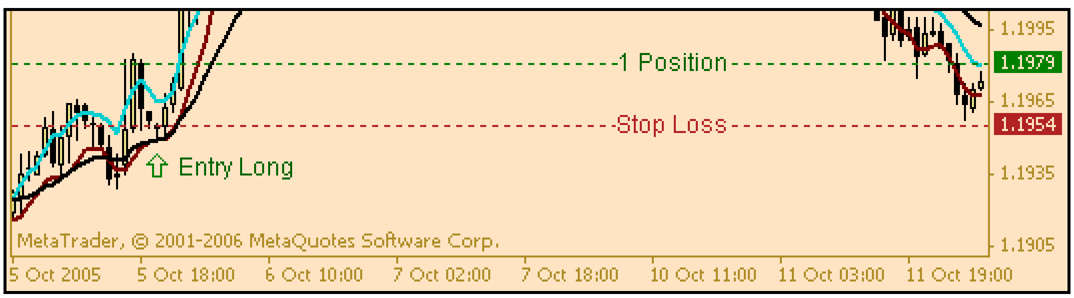
Exit Strategy №1 (Trailing Stop 1)



Rules

When the price reaches **1.1979**, the **Take Profit** order closes the first mini lot automatically while the second mini lot remains open.

At this point we need to move the **Stop Loss** order for the second mini lot to the entry (break-even) level, i.e. **1.1954**.



Now, if the remaining mini lot gains another 30-35 pips (up to **1.2009-1.2014** in our case) then simply move the **Stop Loss** order the same distance.

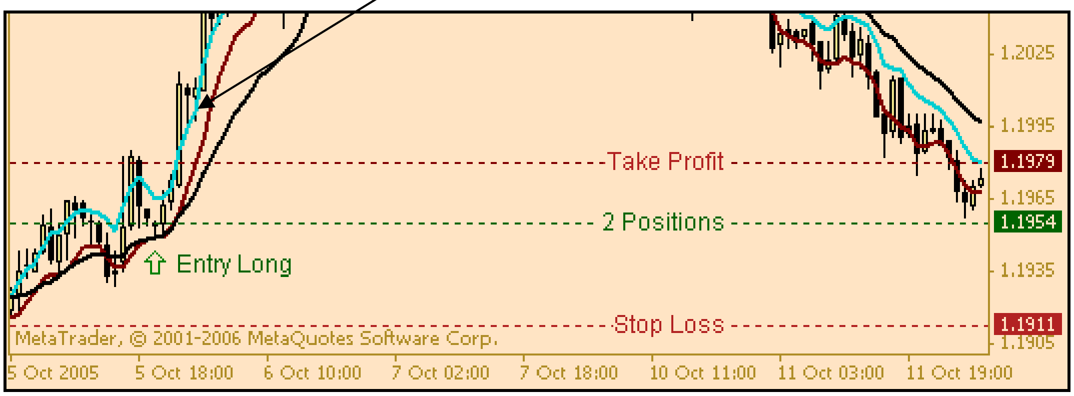
Repeat this step each time the remaining mini lot gains an additional 30-35 pips profit until, eventually, the position will be closed by the **Stop Loss** order.

Exit Strategy №1 (Trailing Stop 2)

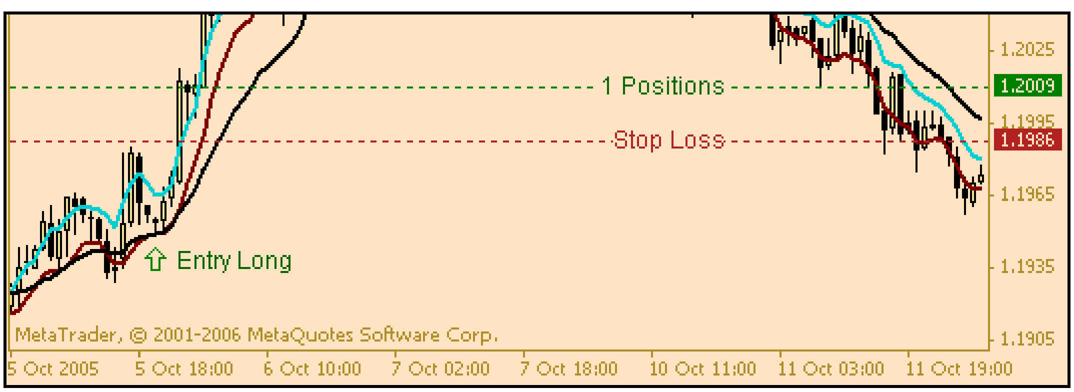
Rules

When the price reaches **1.1979**, the **Take Profit** order closes the first mini lot automatically while the second mini lot remains open.

Once the first mini lot has been automatically closed, wait until the price forms a second low.



Now move the **Stop Loss** for the second mini lot to 5 pips below the low of that candlestick i.e. to **1.1986** as the low of that candle is 1.1991.



Now, if the remaining mini lot gains another 30-35 pips (up to **1.2009-1.2014** in our case) then simply move the **Stop Loss** order the same distance.

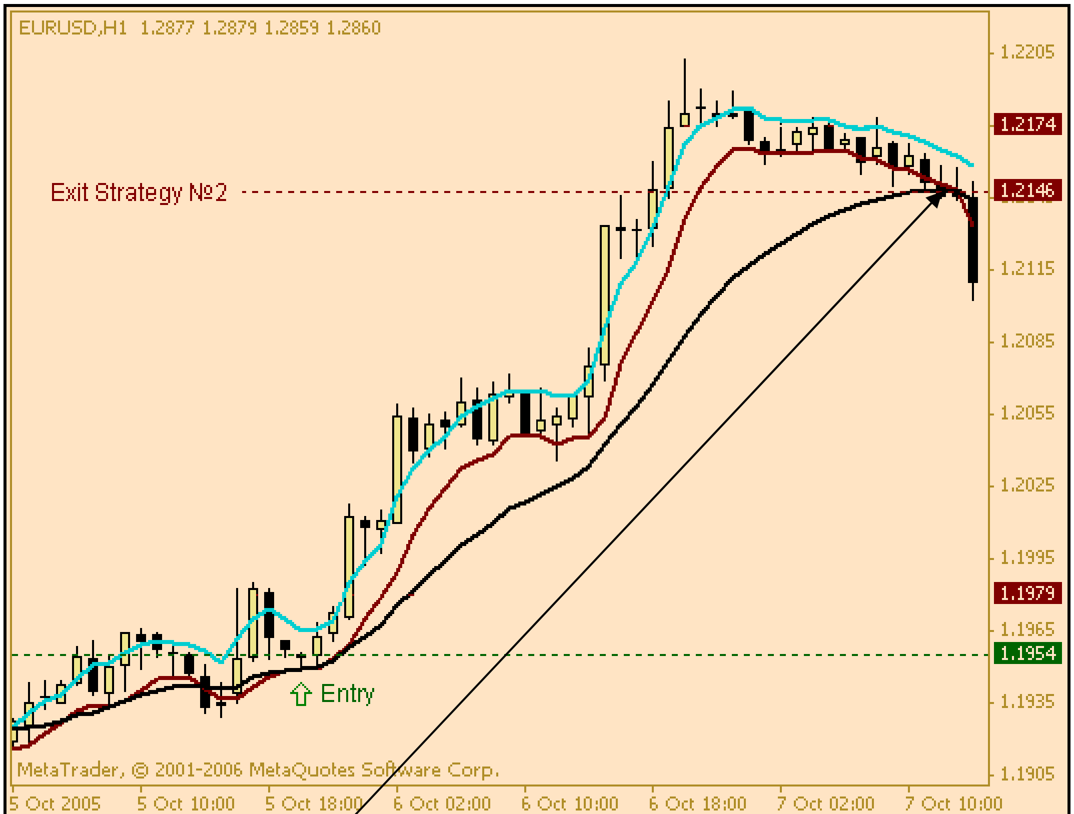
Repeat this step each time the remaining mini lot gains an additional 30-35 pips profit until, eventually, the position will be closed by the **Stop Loss** order.

Once again, there is nothing difficult about the Exit Strategy №1 approaches but Exit Strategy №2 certainly requires less involvement, i.e. it is more mechanical.

Exit Strategy №2 (Moving Averages)

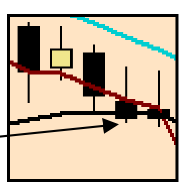
As before, we simply need to follow the 20 period EMA of the Closes.

Look at the illustration below:

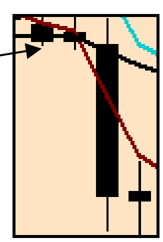


Rules

Keep the remaining position open until a candlestick closes below all three moving averages. Here is a magnified representation of that section of the chart:



And what happened next?...



Once again, you are free to activate a **Trailing Stop** as an additional way to protect/maximize profits.

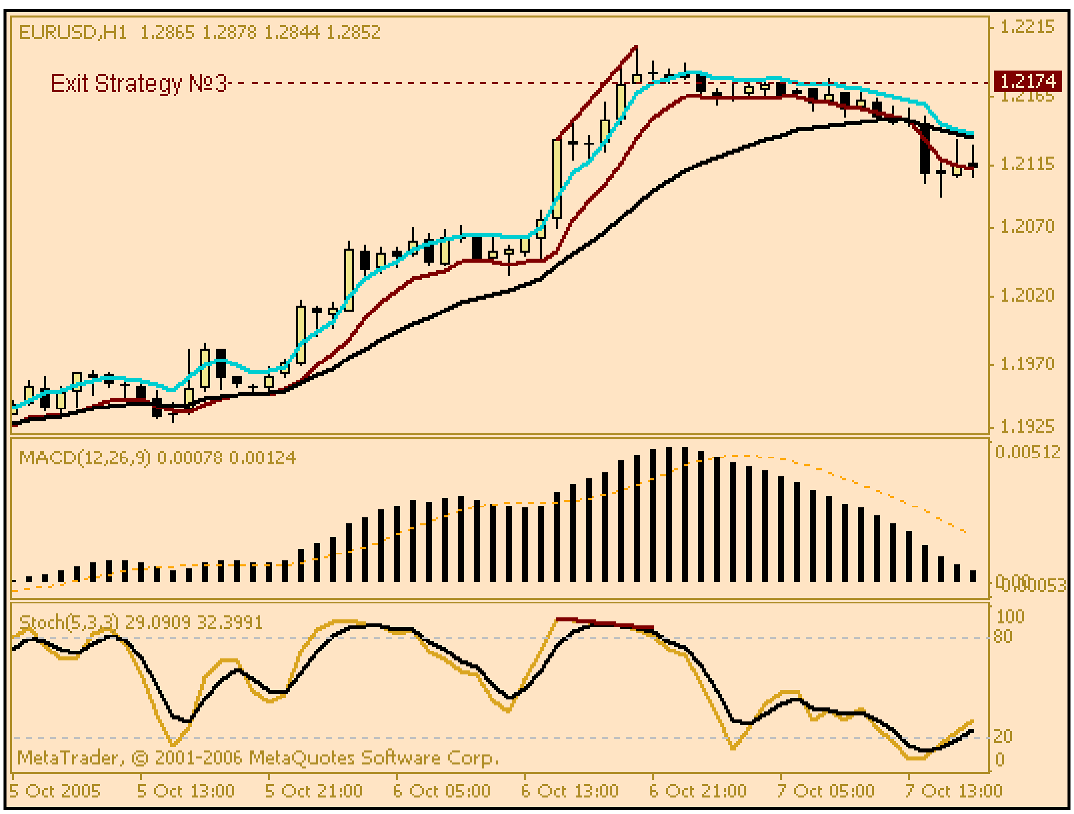
Remember that the **Trailing Stop** feature is built into **MetaTrader 4**.

Exit Strategy №3 (Using of Divergences)

It seems like it is time to once again remind you about the accompanying **TraderBO Divergence System** course - it explains the main ways to use divergences to enhance your trading and really improve your profits.

In this example, we'll be using a bearish divergence to exit the remaining position.

Please look at the illustration below:



Rules

We need to watch out for divergences between the price levels and the indicators (MACD and Stochastic). As before, we can't see anything on the MACD but a bearish divergence is clearly visible on the Stochastic.

So, as we have clear indication of an overbought condition, we can exit safely on this divergence.

It is now down to you to decide which exit strategies you wish to use. All three are relatively simple but you will need to practice Strategy №3 until you become proficient at identifying divergences.

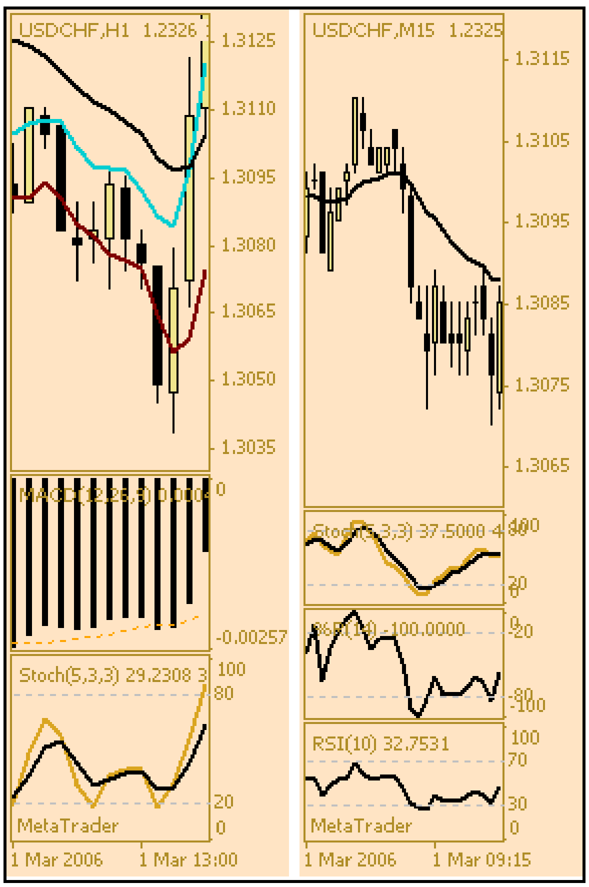
Ideal technical conditions for opening positions

Here we'll consider the ideal technical conditions for opening both long and short positions with a high probability for successful trades.

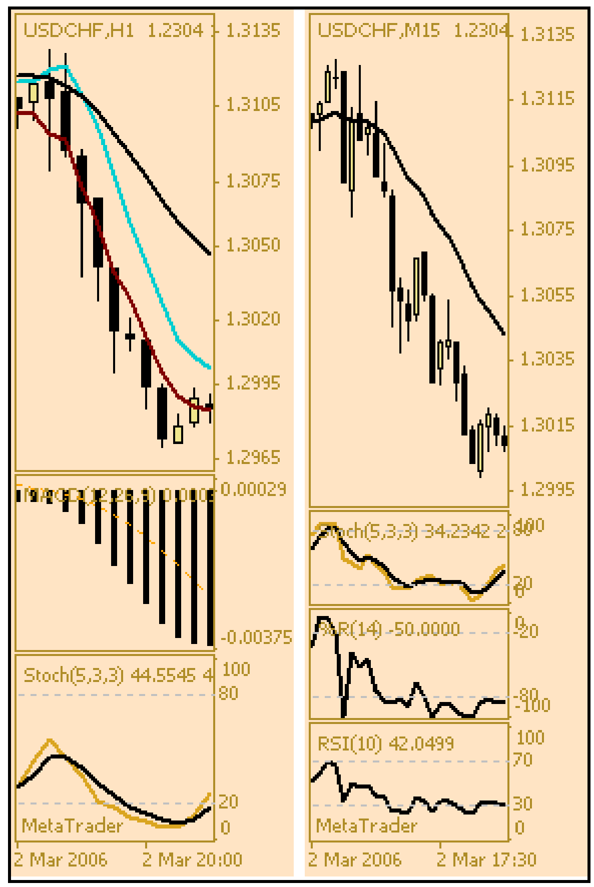
I think that the very best way to achieve this is with illustrations.

Ideal technical conditions for short positions

USD/CHF



Trade 1



Trade 2

Trade 1 (Hypothetical profit is 61 pips in 8 hours)

Trade 2 (Hypothetical profit is 131 pips in 9 hours)

Trade 1 (USD/CHF)

1) The 5 period EMA of the Highs is below the 20 period EMA on the Closes – the best circumstances for us!

2) Prices make a small break-through of the 5 period EMA of the Highs and the 20 period EMA on the Closes.

3) The MACD has been below the zero line for some time and the Stochastic is above the 50% level indicating a move toward an overbought condition.

4) On the 15-Min chart, Stochastic, Williams' %R and RSI are all indicating an overbought condition.

Trade 2(USD/CHF)

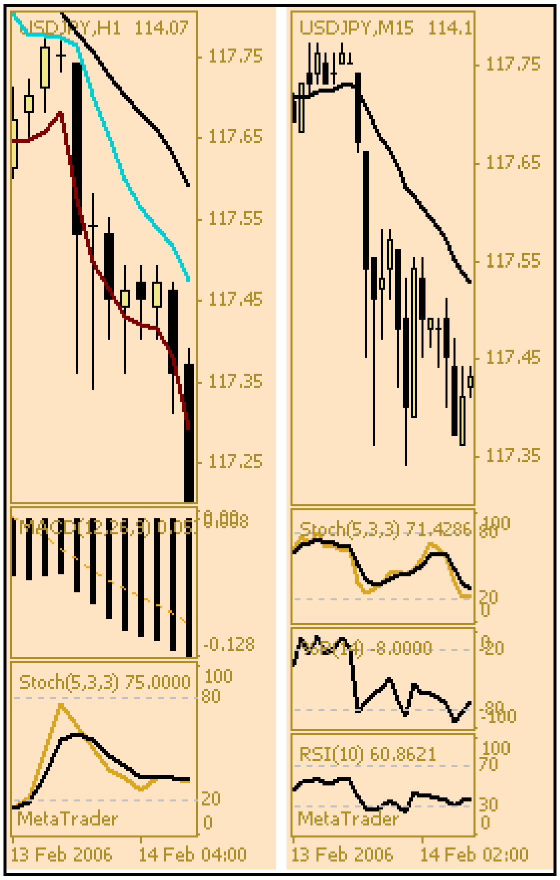
1) The 5 period EMA of the Highs is below the 20 period EMA on the Closes – the best circumstances for us!

2) Prices make a small break-through of the 5 period EMA of the Highs and the 20 period EMA on the Closes.

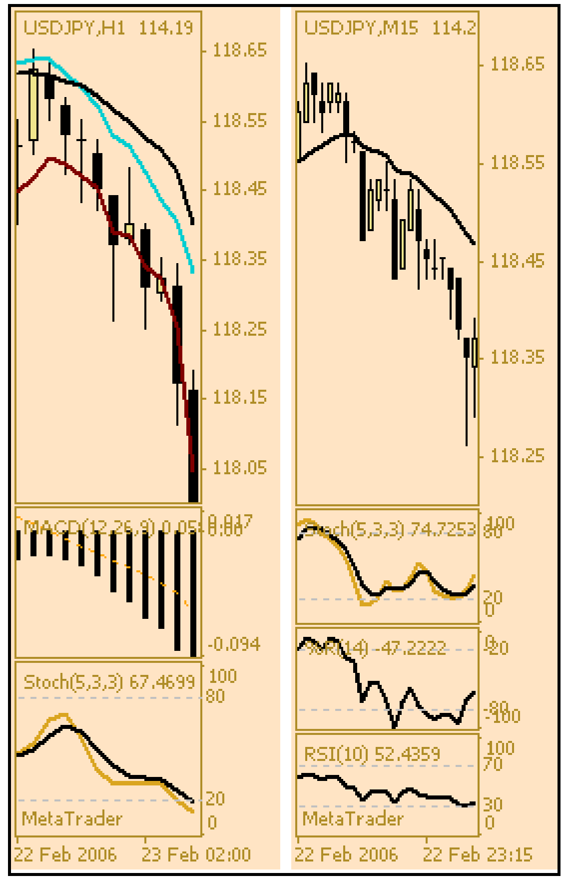
3) The MACD has been below the zero line for some time but stronger downward movement is beginning to develop and the Stochastic is in middle-ground.

4) On the 15-Min chart, Stochastic, Williams' %R and RSI are all indicating an overbought condition.

USD/JPY



Trade 1



Trade 2

Trade 1 (Hypothetical profit is 47 pips in 7 hours)

Trade 2 (Hypothetical profit is 155 pips in 18 hours)

Trade 1 (USD/JPY)

1) The 5 period EMA of the Highs is below the 20 period EMA on the Closes – a strong confirmation!

2) There is a clear pull-back of prices to the 5 period EMA of the Highs.

3) The MACD is below the zero line and the Stochastic almost indicating an overbought condition.

4) On the 15-Min chart, Stochastic, Williams' %R and RSI are all indicating an overbought condition.

Trade 2 (USD/JPY)

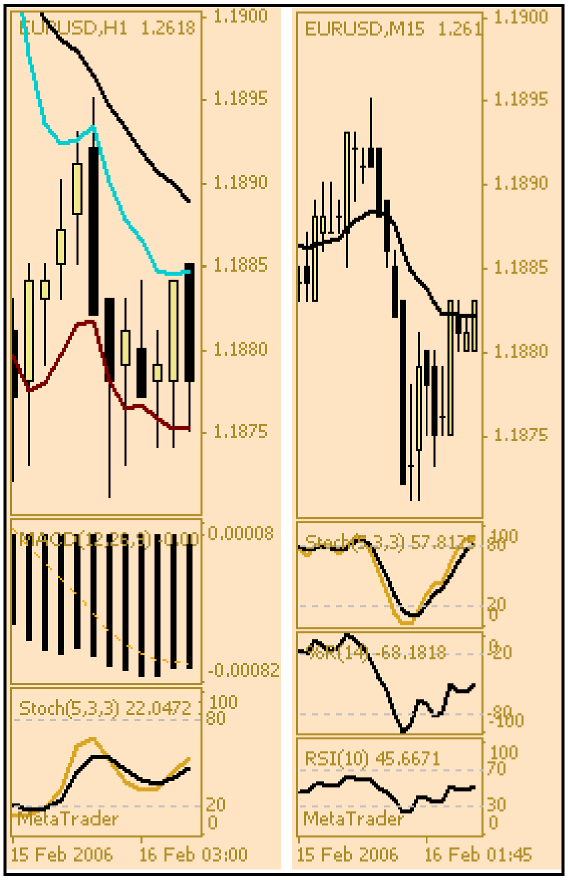
1) The 5 period EMA of the Highs is below the 20 period EMA on the Closes – a strong confirmation!

2) Prices make a small break-through of the 5 period EMA of the Highs.

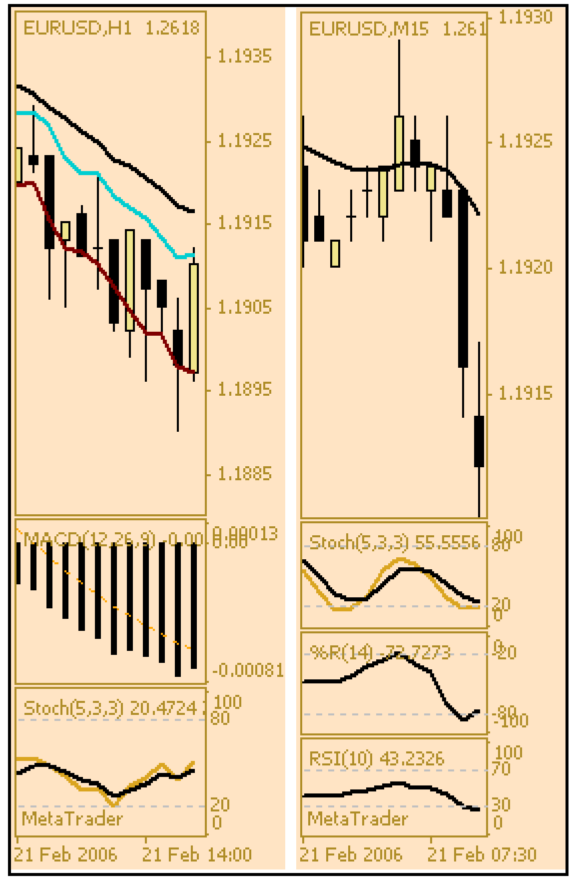
3) The MACD is below the zero line and stronger downward movement is beginning to develop while the Stochastic is in the middle-upper region.

4) On the 15-Min chart, Stochastic, Williams' %R and RSI are all indicating an overbought condition.

EUR/USD



Trade 1



Trade 2

Trade 1 (Hypothetical profit is 40 pips in 12 hours)

Trade 2 (Hypothetical profit is 56 pips in 28 hours)

Trade 1 (EUR/USD)

1) The 5 period EMA of the Highs is below the 20 period EMA on the Closes – a strong confirmation!

2) Prices make a small break-through of the 5 period EMA of the Highs.

3) The MACD is below the zero line and the Stochastic almost indicating an overbought condition.

4) On the 15-Min chart, Stochastic, Williams' %R and RSI are all indicating an overbought condition.

Trade 2(EUR/USD)

1) The 5 period EMA of the Highs is below the 20 period EMA on the Closes – a strong confirmation!

2) Prices make a small break-through of the 5 period EMA of the Highs.

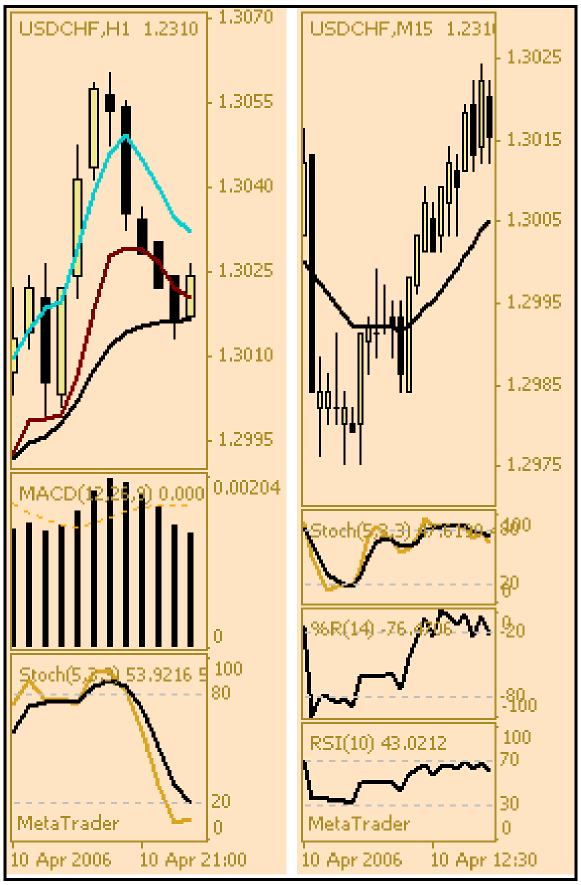
3) The MACD is below the zero line with downward movement beginning to develop and the Stochastic in middle-ground.

4) On the 15-Min chart, Stochastic and Williams' %R (though not RSI) are indicating an overbought condition.

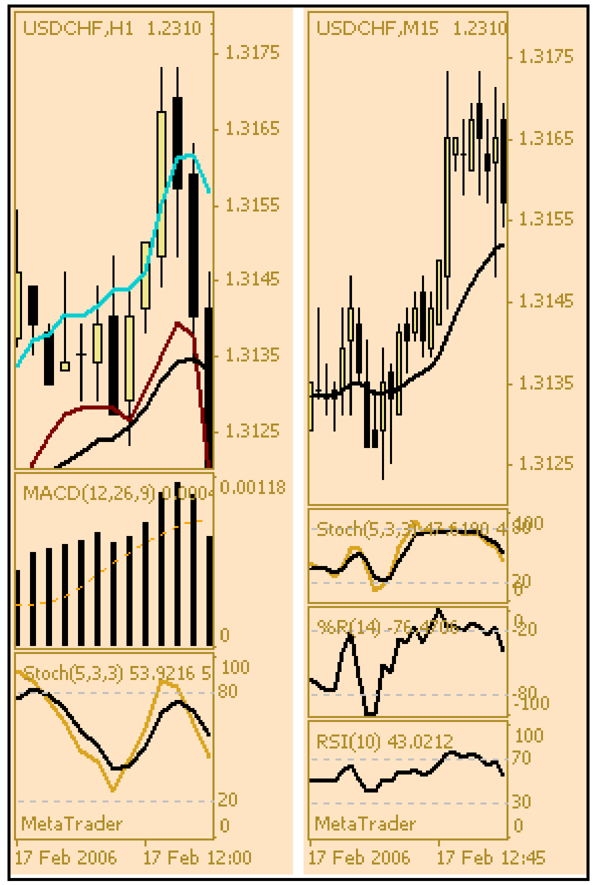
This section has concentrated on ideal conditions for short positions so now we will move on to long positions.

Ideal technical conditions for long positions

USD/CHF



Trade 1



Trade 2

Trade 1 (Hypothetical profit is 60 pips in 3 hours)

Trade 2 (Hypothetical profit is 44 pips in 3 hours)

Trade 1 (USD/CHF)

1) The 5 period EMA of the Lows is above the 20 period EMA on the Closes – a strong confirmation!

2) There is a clear pull-back of prices to the 5 period EMA of the Lows.

3) The MACD is above the zero line and although the Stochastic is indicating an overbought condition, prior to entering the trade it had fallen to below 80.

4) On the 15-Min chart, Stochastic and Williams' %R (though not RSI) are indicating an oversold condition.

Trade 2 (USD/CHF)

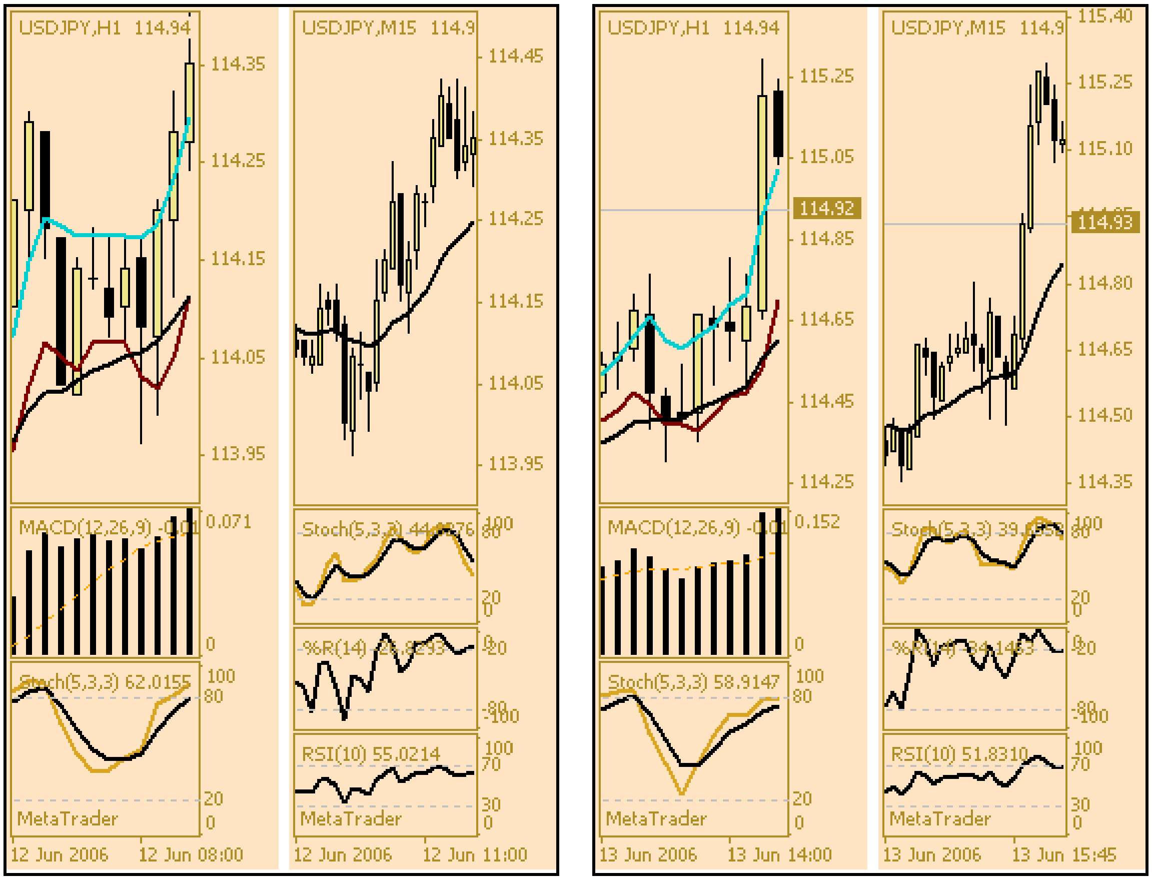
1) The 5 period EMA of the Lows is above the 20 period EMA on the Closes – a strong confirmation!

2) There is a clear pull-back of prices to the 5 period EMA of the Lows.

3) The MACD is above the zero line and the Stochastic is almost in the oversold region (value is about 20).

4) On the 15-Min chart, Stochastic and Williams' %R (though not RSI) are indicating an oversold condition.

USD/JPY



Trade 1 **Trade 2**

Trade 1 (Hypothetical profit is 35 pips in 8 hours)

Trade 2 (Hypothetical profit is 80 pips in 6 hours)

Trade 1 (USD/JPY)

1) The 5 period EMA of the Lows is above the 20 period EMA on the Closes – a strong confirmation!

2) Prices make a small break-through of the 5 period EMA of the Lows.

3) The MACD is above the zero line and the Stochastic is in middle-ground.

4) On the 15-Min chart, Williams' %R is indicating an oversold condition, RSI is in middle-ground and Stochastic is showing a bullish divergence.

Trade 2 (USD/JPY)

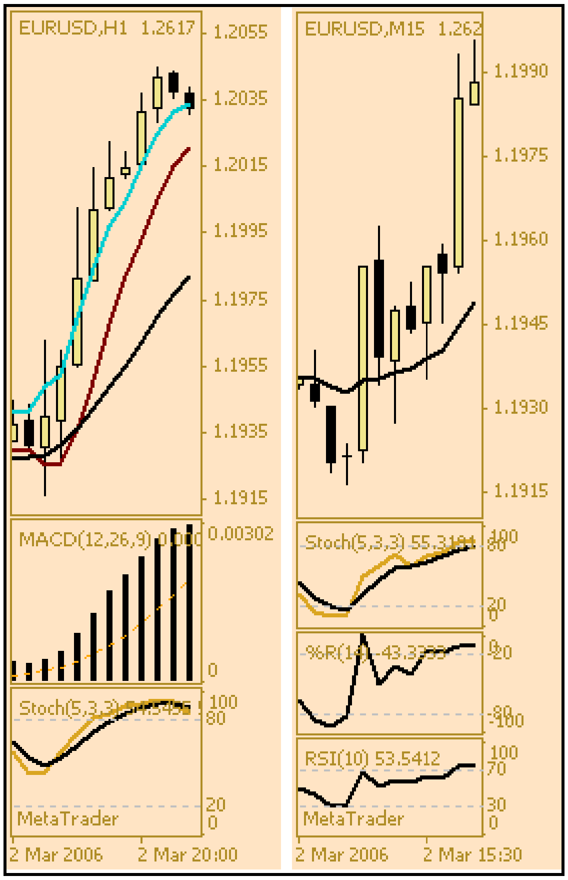
1) The 5 period EMA of the Lows is above the 20 period EMA on the Closes – a strong confirmation!

2) Prices make a small break-through of the 5 period EMA of the Lows.

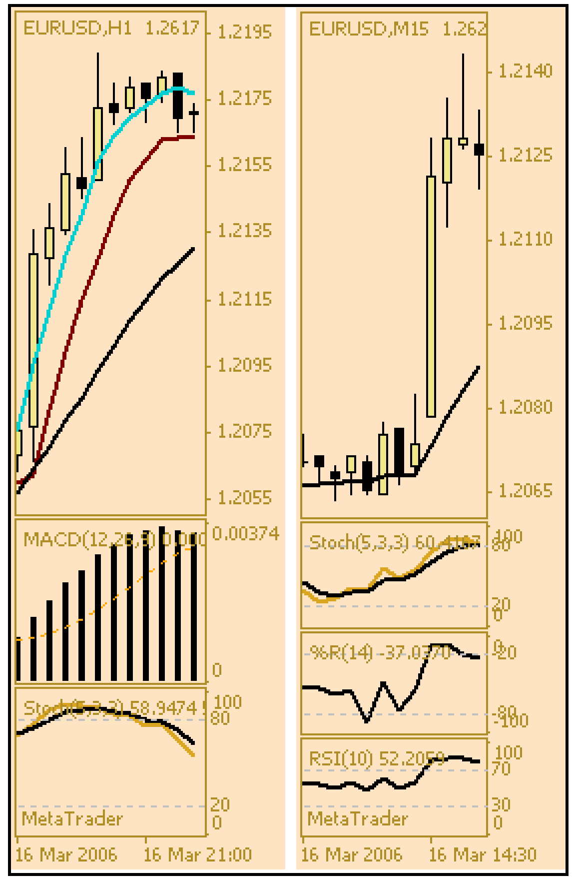
3) The MACD is above the zero line and the Stochastic is in middle-ground (but quite close to oversold territory).

4) On the 15-Min chart, only the Williams' %R is indicating an oversold condition but we have the Stochastic from the 1-Hr chart to back it up, which is actually a better confirmation for us.

EUR/USD



Trade 1



Trade 2

Trade 1 (Hypothetical profit is 100 pips in 8 hours)

Trade 2 (Hypothetical profit is 100 pips in 5 hours)

Trade 1 (EUR/USD)

1) The 5 period EMA of the Lows is above the 20 period EMA on the Closes – a strong confirmation!

2) There is a clear pull-back of prices to the 5 period EMA of the Lows.

3) The MACD is above the zero line and looks to be moving further upward and the Stochastic is in middle-ground.

4) On the 15-Min chart, Stochastic, Williams' %R and RSI are all indicating an oversold condition.

Trade 2 (EUR/USD)

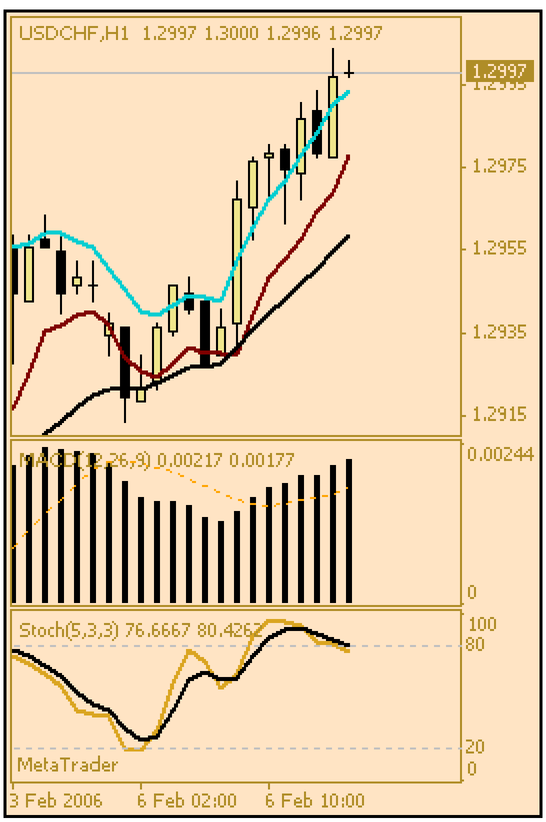
1) The 5 period EMA of the Lows is above the 20 period EMA on the Closes – a strong confirmation!

2) There is a clear pull-back of prices to the 5 period EMA of the Lows.

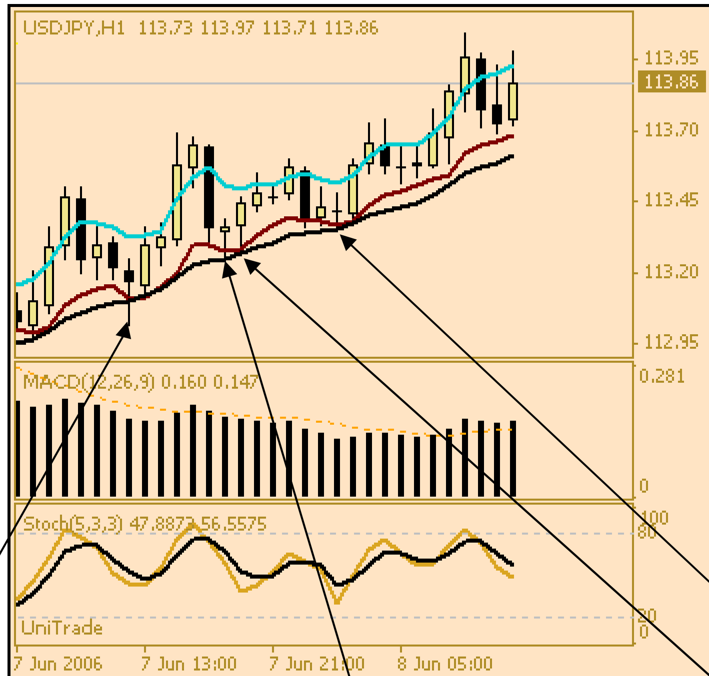
3) The MACD is above the zero line and the Stochastic is in upper-ground.

4) On the 15-Min chart, Stochastic, Williams' %R and RSI are all indicating an oversold condition.

To conclude this section, here are two additional ideal trade setups:



Finally, a series of possible trade entries for **USD/JPY**



If you missed your chance to enter here, you could try again here, here, and here. The **USD/JPY** currency pair does this quite frequently. ☺

In last section of this book we have analyzed the best trade opportunities for both long and short positions.

Now is the time to consider what most course fail to explain… the market conditions when it is better to stand aside and preserve your capital.

When Not To Enter the Market ("No Trade" Rules)

In every trading system there will be exceptions to the rules.

Here are some fundamental and technical market conditions that should prompt you **not to trade** even though your system may be giving you a trade signal.

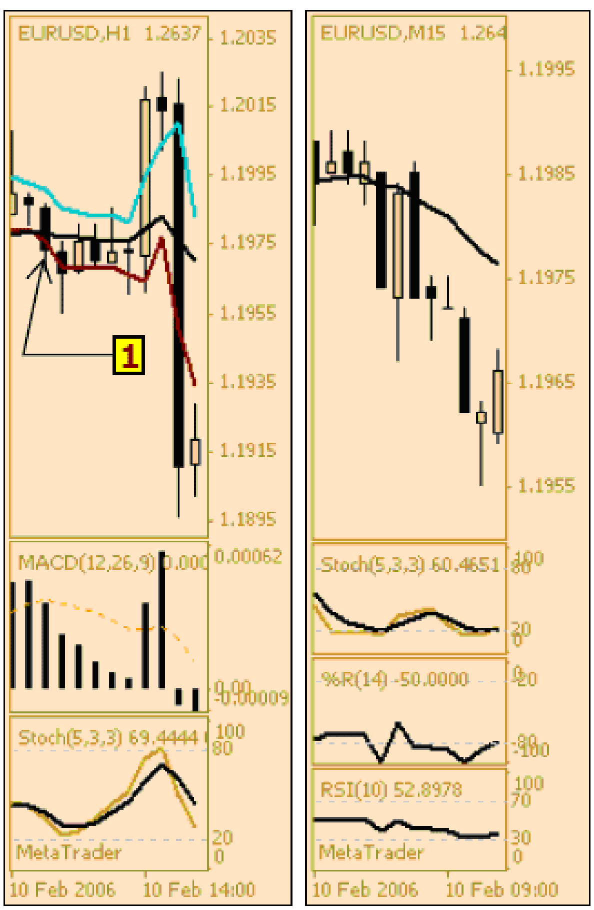
Let's look at some examples:

The exceptions based on fundamental events (news)

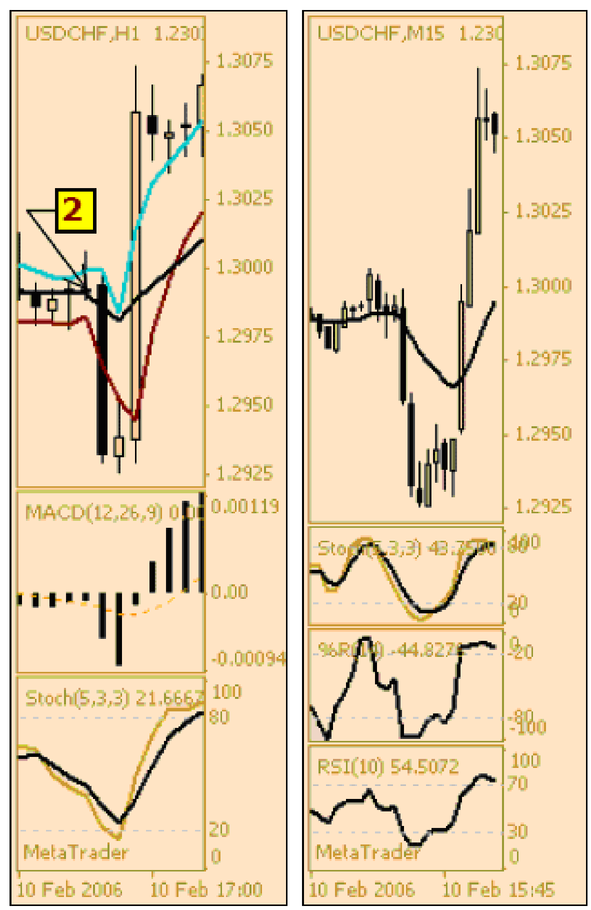
As I've already explained, you should not open positions before important fundamental news, even though the system may be giving you a trade signal. If you already have positions open then you really need to close them (especially if they are in profit) – at the very least you should move your Stop Loss order to a more appropriate level.

We'll look at just two examples of what a news report can do and how you can be affected if you have open trades when the news is released.

Two examples will be enough to get my point across.



Trade1



Trade2

Trade 1 (EUR/USD long)

Here we have a good opportunity to open a long position. See the candlestick bar of the entry point **[markers 1, 2]**.

1) The 5 period EMA of the Lows is a little lower than the 20 period EMA of the Closes **[marker 2]** but we have other good signals (see points 2, 3 & 4 below).

2) There is a pull-back of the prices to the 5 period EMA of the Lows and also a small break-through.

3) The MACD is above the zero line and the Stochastic on the 60-Min chart is indicating oversold.

4) On the 15-Min chart, Stochastic and Williams' %R (though not RSI) are indicating an oversold condition.

Trade 1 (description)

Our entry point is 1.1975 for 2 mini lots. Stop Losses @ 1.1935. Take Profit for one mini lot @ 1.2000.

According to our trading rules, when the price has risen to 1.2000, the Take Profit order automatically closes our first mini lot and we've banked 25 pips. Also, we would move the Stop Loss for the remaining mini lot to the entry point (1.1975). That is all very good in theory, but…

…after the news has been released, the market plummets and, while the Stop Loss order would trigger an exit to take us out of the market, it is highly unlikely that we would exit at our requested price level. In such a fast-moving market, the price we actually exited at could be anywhere between the price we wanted (1.1975) and the low of that bar (about 1.1895). In monetary terms, that means a real cash loss on the remaining position of **up to $800!** Even offsetting the profit from the first mini lot, we would still be out of pocket by as much as $550 which effectively puts us three days behind in our 12-month plan.

Trade 2 (USD/CHF short)

Here we have good opportunity to open a short position. See the candlestick bar of the entry point **[markers 3, 3.1]**.

1) The 5 period EMA of the Highs is a little higher than the 20 period EMA of the Closes **[marker 4]** but we have other good signals (see points 2, 3 & 4 below).

2) There is a pull-back of the prices to the 5 period EMA of the Highs and also a small break-through.

3) The MACD is below the zero line and the Stochastic on the 60-Min chart is in middle-ground.

4) On the 15-Min chart, Stochastic, Williams' %R and RSI are indicating an overbought condition.

Trade 2 (description)

Our entry point is 1.3000 for two mini lots. Stop Losses @ 1.3045. Take Profit for one mini lot @ 1.2975.

Following our trading rules, when the price has fallen to 1.2975 the Take Profit order automatically closes our first mini lot and we've banked 25 pips. Our next job is to move the Stop Loss for the remaining mini lot to the entry point (1.3000). Once again, all very well in theory!

After the news is issued, the market surges upward and our second mini lot is closed by the Stop Loss order. As in the previous example, the potential loss for that one position is anywhere between $0 and $750.

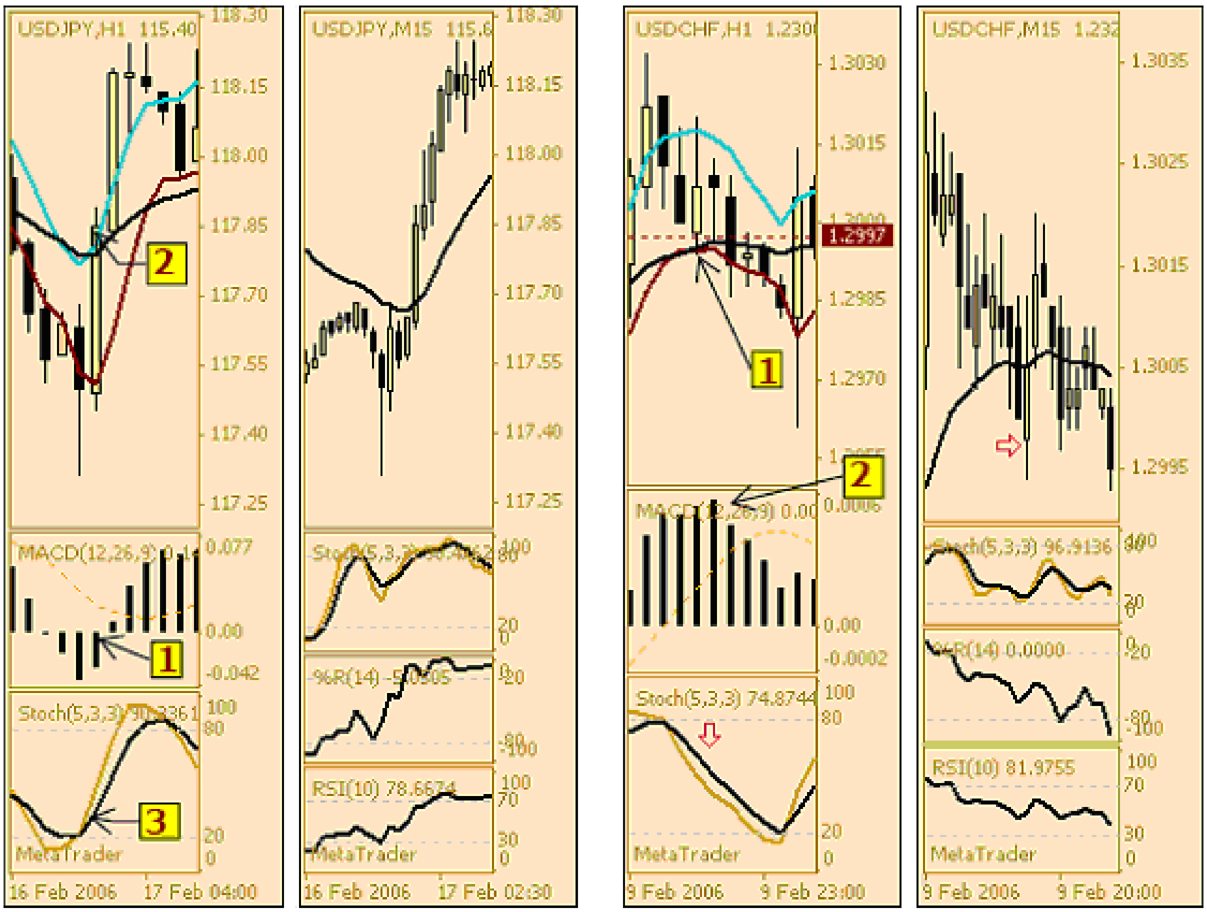
I hope you now understand why it is better not to trade before a fundamental news release.

Now let's look at some examples of unwanted technical conditions.

The exceptions based on technical conditions

We can consider two examples of unwanted technical conditions occurring when looking to open a trade position.

Again, just two examples should be enough for you to understand.



Trade1 Trade2

Trade 1 (USD/JPY short)

As a matter of fact, in this case we wouldn't open any positions at all. The third bar of the MACD has closed below the zero line **[marker 1]** but the price has closed higher than all three EMAs **[marker 2]**. In addition, the Stochastic has begun moving out of the oversold zone. I don't think this example needs any further commentary! **[marker 3]**.

Trade 2 (USD/CHF long)

Here we have a good opportunity to open a long position at the 1.2997 level - see the candlestick bar of the entry point **[marker 1]**.

1) The 5 period EMA of the Lows is a little lower than the 20 period EMA of the Closes **[marker 1]** but we have other mixed signals (see points 2, 3 & 4 below) to warn us away from this trade.

2) There is a clear pull-back of prices to the 5 period EMA of the Lows which would indicate a long trade.

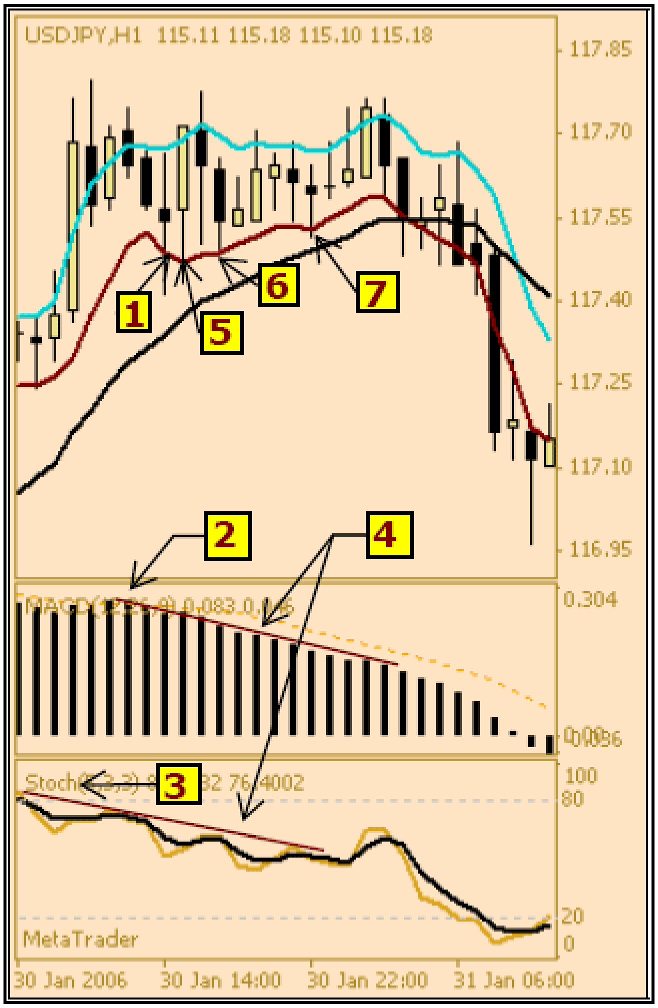
3) The MACD has been above the zero line for some time but it is now in a strong overbought condition **[marker 2]** and the Stochastic on the 1-Hr chart is already dropping.

4) On the 15-Min chart, the Stochastic is almost in oversold territory **[red arrow]** but the Williams' %R and RSI are totally indecisive.

Hopefully you now understand what to look for and won't get fooled into opening positions when you shouldn't but, just to make sure, here are two more scenarios.

Classic example of when you should not open a position.

In this case, we have an unwanted technical condition for a long position.



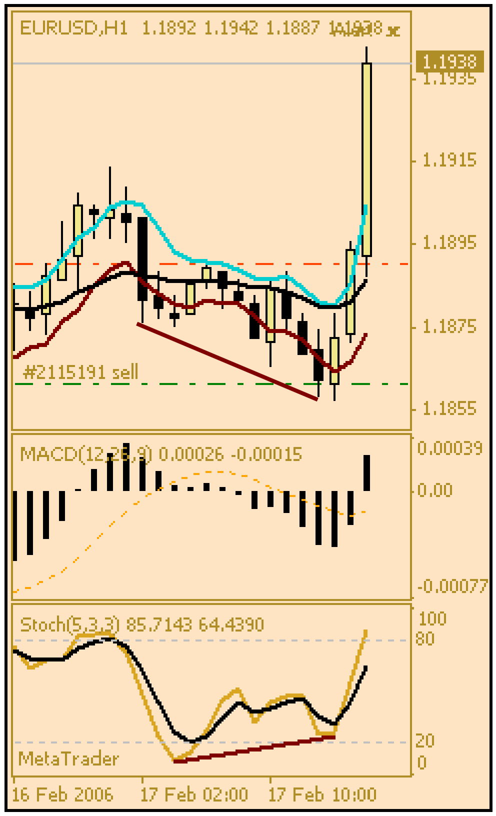
We can see an opportunity to open a long position **[marker 1]**. However, the MACD is in a strongly overbought condition **[marker 2]** and the Stochastic is moving out of and away from the overbought region **[marker 3]**.

In addition, the Stochastic is indicating the start of a bearish divergence **[marker 4]**.

Taking the entire situation into account, both the MACD and Stochastic are going down but the trend is still going up. Under these conditions (**developing a bearish divergence**), on every possible trade signal **[markers 5, 6, 7]** you'll be unable to earn the target 25-30 pips which means that any positions you open will be lost.

The same rules (though reversed) apply to short positions.

Here is one more example of technical conditions during which it is less than prudent to trade - **developing of a divergence.**



Here we see very good opportunity to enter a short position.

The MACD is below the zero line and the downward movement of the MACD bars is just beginning.

But… you can see what has happened after that – **a bullish divergence on the Stochastic.**

If you open a position by accident and, shortly afterwards, you identify a divergence then close the trade without delay!

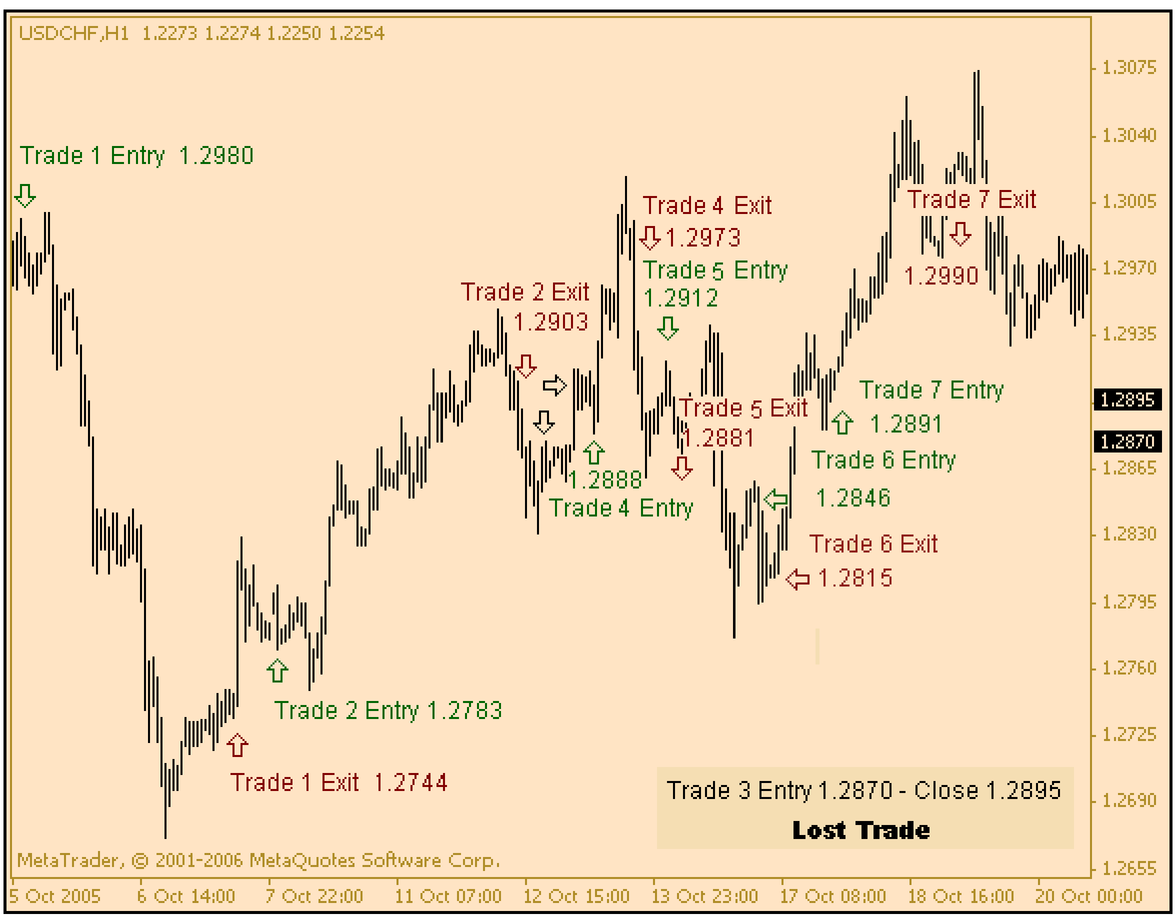
As you will have come to expect by now, the rules for long positions are simply the reverse of the short position rules above.

Please ensure you thoroughly reread the Trading Rules and Exit Strategies so that you understand how to identify the times when it is far better to stay out of the market. Your trading account will appreciate it!

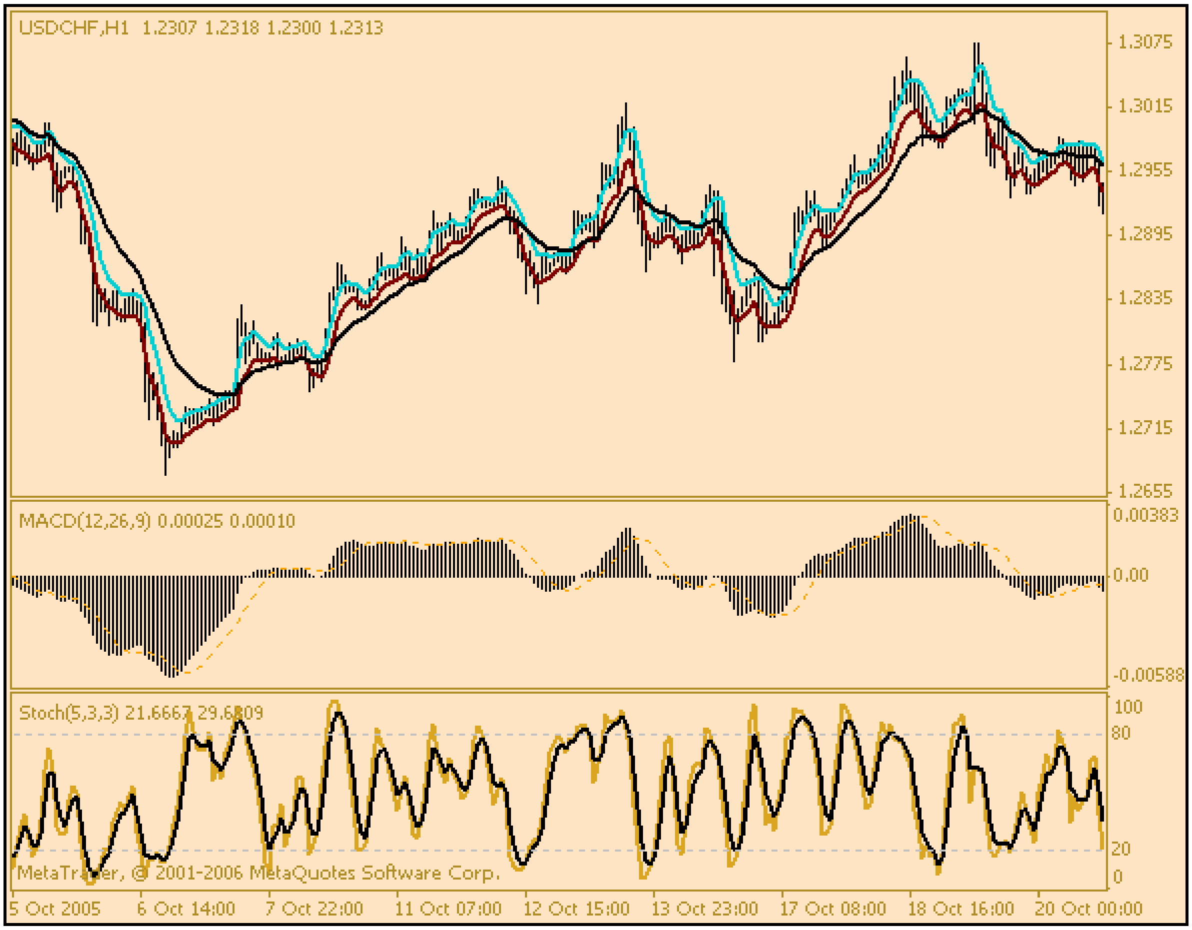
By analyzing potential and actual trades, identifying when it is (and isn't) safe to enter the market will become second nature to you.

Detailed Analysis of Trades

You may have already seen this chart on my web site.



What I would like to do now is apply technical indicators to the chart so that you can understand how all these trades have been identified.



As you can see, in this condition, our chart is not informative at all.

In order for us to see every single trade, we'll zoom in on the chart and separate it into different sections.

> ***Note:*** *For analyzing these trades we'll be using Exit Strategy №2. I'd also like to remind to you that the 15-Min chart is only to help us to enter and exit the market at more desirable price levels. In this section of the book we won't be using it at all, in order to show how you can actually trade without it.*

Finding trade opportunities

Ok! We have $1,000 to trade with and we can take any period of time. In our case, we'll take the period from 2005-10-05 to 2005-10-20… 16 days.

Potential trades are identified by using our **Expert Advisor** plug-in for MetaTrader 4. This monitors the market(s) and provides an audible alert when a trade opportunity presents itself. Rather than be glued to the screen all day, this allows you to simply be within earshot of your computer while waiting for the right technical conditions to occur.

You've already seen our first trade in the sections covering entry and exit rules for short positions (see pages 80 and 83 to update yourself) so, to avoid needless repetition, we'll start our analysis from the second trade.

Of course, to begin with, we'll calculate the profit from the first trade.

Trade 1 (1.2980-1.2744)

So, our first trade was opened at a price of 1.2980 and closed at a price of 1.2744. The profit was 236 pips.

The first mini lot was closed by a Take Profit order at 1.2949 which gave a 31 pip profit. However, that was 31 CHF so we need to convert that into USD as follows:

31 CHF / exchange rate of USD/CHF at close of trade (1.2949) = $24

The second mini lot was closed at 1.2744 and gave a profit of 236 CHF.

236 CHF / exchange rate of UCD/CHF at close of trade (1.2744) = $185

$24 + $185 = $209 in total.

Ok! Time to examine Trade 2:

Trade 2 (1.2783-1.2903)

So, here we see our exit level (1.2744) for the second mini lot from our first trade. The market is moving up but the MACD is remaining in negative territory **[markers 1, 1.1]** so we can't go long until the MACD has at least three closed bars above the zero line.

After 7 hours, we finally got a trade alert from our Expert Advisor **[marker 2]**. We opened a position with two mini lots on the 4th bar of the MACD at a price of 1.2783.

Of course, for both mini lots we placed Stop Loss orders at 1.2738 and, for one mini lot, we place a Take Profit order at 1.2814. Unfortunately, the price did not go up to the Take Profit level (1.2803) and so our first mini lot was not closed out. Moreover, the price subsequently went down to 1.2748 but, happily, it didn't reach our Stop Loss level (1.2738).

Further strong up movement developed. Our first mini lot was closed by the Take Profit order at 1.2814 and so we moved the Stop Loss for the remaining mini lot to the level of our entry point (1.2783) while the market continued its uptrend.

Note that the MACD remains positive all the time and there are no closes below the 20 period EMA of the Closes, which means that we can safely maintain our position.

After forming the first low at 1.2824, we move our Stop Loss to 5 pips below this level (1.2819). This allows us to lock in our profit from the remaining mini lot which has already achieved 91 pips.

By the way, note at how many points during this uptrend that we could have entered a long position. In practice, these would be opportunities to add to the existing position(s) after having locked in the earlier profits. Of course, this is just an observation - in this analysis we are not going to be adding to positions.

Finally, we encountered market conditions which met the rules of Exit Strategy 2 – a candlestick bar has closed below the 20 period EMA of the Closes so we closed our position on the next bar at a price of 1.2903.

Calculation

Our first mini lot brought us 31 CHF ($24). (The calculation was covered previously on page 119 when we looked at Trade 1).

Our second mini lot has brought us 120 CHF ($93), so the total profit for this trade was $117.

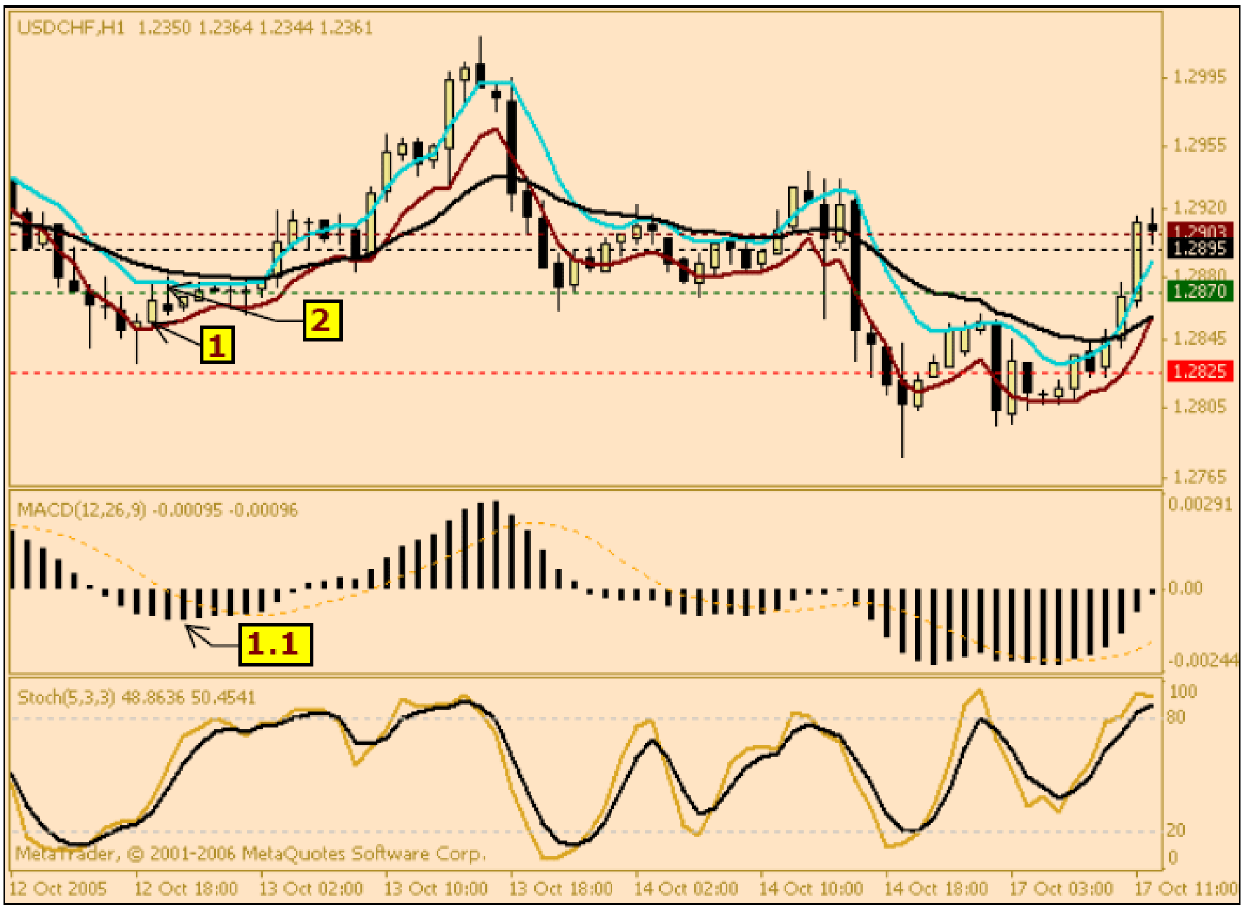
Adding this to the returns of our first trade gives us $326 profit.

Now, we all have different situations and responsibilities in our lives. It is just impossible to sit in front of a PC and trade on a twenty-four hour basis (as much as we may want to!) so, therefore, we'll cover two obvious scenarios: **a)** when you are monitoring your trade opportunities and, **b)** when you are not.

Ok! Now it's time to analyze Trade 3.

Trade 3 is going to be treated as though you were able to be at your PC and watching your trades.

Trade 3 (1.2870-1.2895) Lost Trade



We can see the exit level (1.2903) of the second mini lot from our second trade. The market is continuing to go up but the MACD is remaining in negative territory **[markers 1, 1.1]**. Therefore, we can't go long until the MACD moves above the zero line for at least three bars but, as we trade a two-way market, it means that may be possible to take the opportunity to go short.

After 7 hours, we got a trade alert from our Expert Advisor for opening a short position **[marker 2]**. We are going short on the 4th bar of the MACD with two mini lots at an entry price of 1.2870. We see the price clearly touch the 5 period EMA of the Highs. The MACD is remaining negative and the Stochastic looks good. We have all the right technical conditions for going short. We place a Take Profit order for one mini lot at 1.2901 and a Stop Loss for both mini lots at 1.2915.

Unfortunately, the price went up and broke through the 5 period EMA of the Highs and the 20 period EMA of the Closes. This situation meets the rules of Exit Strategy №2 but we should really wait until the candlestick closes above all three EMAs. As it closed at the 1.2900 level, we have little choice but to exit the trade without delay. The actual exit price is about 1.2895.

In this case we were not waiting for the execution of our Stop Loss orders because we rather quickly met the conditions of Exit Strategy 2.

Calculation

Our two mini lots made a combined loss of 50 CHF ($39).

> ***Note**: In this case we are assuming that you were next to your PC and could act very quickly. If this were not so, the Stop Loss would still close the trade but at the higher price of 1.2915 and would lose 45 pips per mini lot - $73 in total. We'll need this sum in our final summary calculations.*

After our small defeat, we are now getting conditions for an impending trade alert for opening a long position.

Time to take a look at Trade 4:

Trade 4 (1.2888-1.2975)

As usual, we can see our exit level (1.2895) from the previous trade marked with the black line. The market is going up and the MACD is going positive **[markers 1, 1.1]** but we can't go long until we have at least 3 closed MACD bars above the zero line.

After 5 hours we get a trade alert from our Expert Advisor **[marker 2]** so we are going to open a long position on the 4th bar of the MACD – again, two mini lots, at an entry price of 1.2888.

For both mini lots we are placing our Stop Loss orders at 1.2843 and, for one mini lot, we are placing a Take Profit order at 1.2919. The price goes up to the Take Profit level (1.2919) and the first mini lot is closed.

Further strong upward movement developed and we moved the Stop Loss to the level of our entry point (1.2783).

Calculation

Our first mini lot has brought us 31 CHF ($24) and the second mini lot brought us 85 CHF ($65) = $89 in total.

Ok! Now start considering the next trade - Trade 5.

Trade 5 (1.2912-1.2881)

We see our exit level from the second mini lot of the previous trade at 1.2975. The market has reversed and is going down. The MACD is also going negative **[markers 1, 1.1]** but we still have to wait until we have our three negative MACD bars before going short.

It takes 10 hours but eventually we get a trade alert from our Expert Advisor **[marker 2]**. As before, we open a short position on the 4th bar of the MACD with two mini lots. The entry price is 1.2912.

For both mini lots we place a Stop Loss at the 1.2957 level and for one of the mini lots we place our Take Profit order at 1.2881. The price goes down to the 1.2868 level and our Take Profit order closes the first mini lot at 1.2881. We've banked our 31 CHF profit so we move the Stop Loss for the second mini lot to the entry point level (1.2912).

Unfortunately, the price starts going back up and our remaining position is closed by the Stop Loss order at a price of 1.2912 **[marker 3]**.

Further minimal upward movement developed but the MACD remained negative **[marker 4]** which means we can wait for another opportunity to open a short position.

Calculation

The first mini lot earned us 31 CHF ($24) and the second mini lot broke even so the total profit from this trade was $24.

Now, on to Trade 6:

Trade 6 (1.2846-1.2815)

Trade 6 followed almost the same pattern as Trade 5.

We see our exit level (1.2881) from the previous short trade. The market is continuing down and the MACD is staying in the negative zone **[marker 1]**. We now just need to wait until the price touches the 5 period EMA of the Highs.

It took 20 hours but we got a trade alert from our Expert Advisor **[marker 2]** so we opened a short position with two mini lots. The price achieved is 1.2846.

Our Stop Loss level for both mini lots was 1.2891 and the Take Profit level for one mini lot was set to 1.2815. The price goes down to 1.2794 and the Take Profit order closed the first mini lot at 1.2815. This gave us 31 CHF profit. We also moved the Stop Loss for the second mini lot to the entry level (1.2846).

Unfortunately, the price goes back up and our remaining position is closed by the Stop Loss order at break-even (1.2846) **[marker 3]**.

Further strong up movement developed and the MACD moves into the positive zone **[marker 4]** which means we have to wait for an opportunity to open a long position.

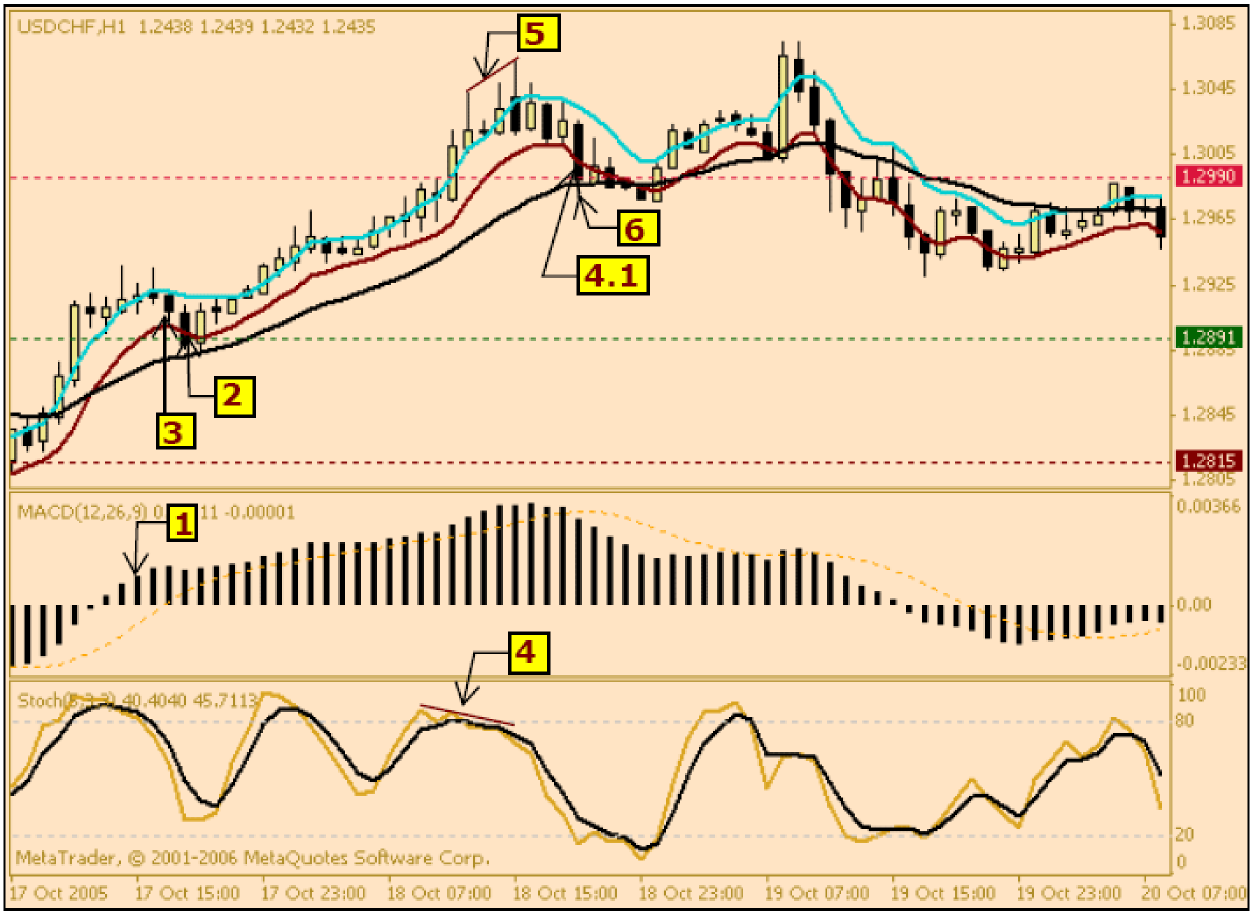
Note: *After Trade 6 we could open one more short position [marker 5] but according our No Trade Rules (you should remember them), such a position would have been unjustified and therefore lost.*

Calculation

Our first mini lot has made 31 CHF ($24) and our second mini lot simply broke even as it was closed by our Stop Loss order. Trade 6 therefore made $24 in total.

Time to look at our final trade:

Trade 7 (1.2891-1.2990)



Trade 7 has ideal technical conditions for going long.

We see our exit level from the previous short trade at 1.2815, the market is moving upwards and the MACD is remaining in the positive zone **[marker 1]**. Now we simply need to wait until the price touches the 5 period EMA of the Lows.

It takes 20 hours but we finally got a trade signal from our Expert Advisor **[marker 2]** and so we open a long position with 2 mini lots. The entry price is 1.2891.

Our Stop Loss for both mini lots is set at 1.2846 and our Take Profit order for one mini lot is set at 1.2922. The price goes up without stopping and the Take Profit order closes our first mini lot at 1.2922 giving us our normal 31 CHF profit. We then move the Stop Loss for the second mini lot to the break-even point (1.2891).

Strong upward movement developed and the MACD remains in the positive zone. Moreover, the price remains higher than both the 5 period EMA of the Lows and the 20 period EMA of the Closes **[marker 3]** which means we want to hold this position as long as possible and hope that the rules of our Exit Strategy aren't met for a very long time!

As you can see, the rules of Exit Strategies 3 and 2 were met one after the other **[markers 4, 4.1]**. It is actually more advantageous for us to exit using Strategy 3 **[marker 5]** but, as we agreed to use Strategy 2, that is what we will abide by.

So, we close our remaining position using Exit Strategy 2 after a candlestick closes below the 20 period EMA of the Closes **[marker 6]**.

Calculation

The first mini lot brought us 31 CHF ($24) and the second mini lot brought us 99 CHF ($76) = $100 in total.

At this point we will finish covering the **5 EMAs FOREX SYSTEM** – "Day-Trading".

Calculation of profit from all 7 trades

1) If we were monitoring Trade 3

Trade 1: $209
Trade 2: $117
Trade 3: -$39
Trade 4: $89
Trade 5: $24
Trade 6: $24
Trade 7: $100

Total from 2005-10-05 to 2005-10-18 (14 days) = $524

It is more than 50% profit in 14 days or 1,303% per annum.

2) If we were not monitoring Trade 3

Trade 1: $209
Trade 2: $117
Trade 3: -$73
Trade 4: $89
Trade 5: $24
Trade 6: $24
Trade 7: $100

Total from 2005-10-05 to 2005-10-18 (14 days) = $492

It is more than 49% profit in 14 days or 1,277% per annum.

Of course, these results are calculated assuming that we were always getting the same profit per point from this floating currency pair. You should also remember and take advantage of our Money Management rules/strategy. That means that when you have earned an additional $1,000 then you can open 0.40 mini lots (rather than the 0.20 that we used in our analysis) and so on. Of course, it is important to remember that while profits will be larger, so too will any losses!

Conclusion for the 5 EMAs FOREX SYSTEM – "Day-Trading"

I think you will like this system more and more as you start to use it. From my perspective, I have tried my best to explain how to trade this system and I have tried to illustrate the trades in as much detail as possible.

Now it's time to take a look at the second part of this trading system: something that you can use in concert with the Day-Trading system we have just covered, with the objective of gaining small additional profits.

Trading Rules for 5 EMAs FOREX SYSTEM- "Scalping"

Introduction

The 5 EMAs Scalping systems are intended to let you gain small, additional profits during trading with the main "Day Trading" system.

So, what does it all mean?

It means that you can open additional positions when your second mini lot is already in profit and the Stop Loss order has been moved to the break-even level.

Your objective is to enter and exit the market with the goal of catching 5-15 additional pips on top of any existing and/or anticipated profits from the main trade.

So, let's get going….

Main Rules

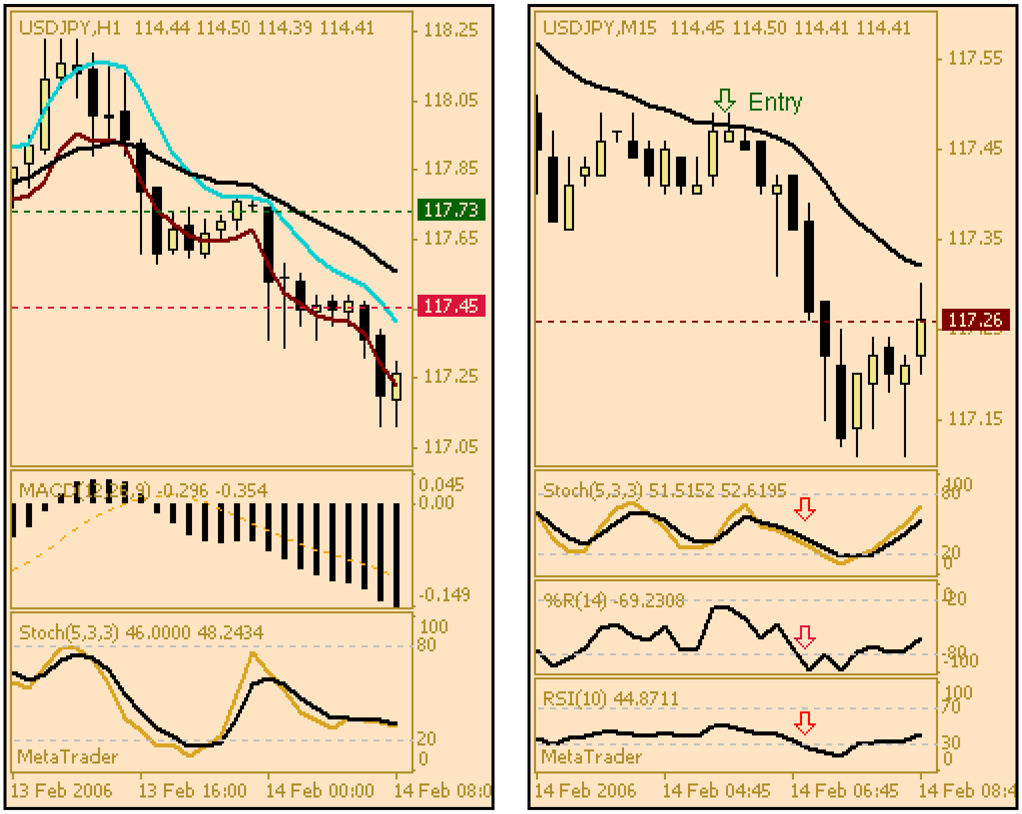
Scalping the trend of the 60-minute timeframe.

Enter additional positions using bounces off the 20 period EMA of the Closes on the 15-Min chart. Though not necessarily required, it is always good to have confirmation from the overbought/oversold condition of the technical indicators on the 15-Min chart.

Exiting these additional positions is by mandatory confirmation from the overbought/oversold conditions of the technical indicators on the 15-Min chart.

Short Position

USD/JPY



You've opened a short position at 117.73 using the Day-Trading system. The Take Profit order closed one mini lot at 117.45 and we moved the Stop Loss level down to the entry price (117.73) of the remaining mini lot.

Our remaining mini lot is now protected from loss by the Stop Loss order and we can try to catch some additional profits without concerning ourselves with losses.

The price is below both our EMAs and, importantly, the 5 period EMA of the Highs is below the 20 period EMA of the Closes. These are ideal conditions to scalp extra profits.

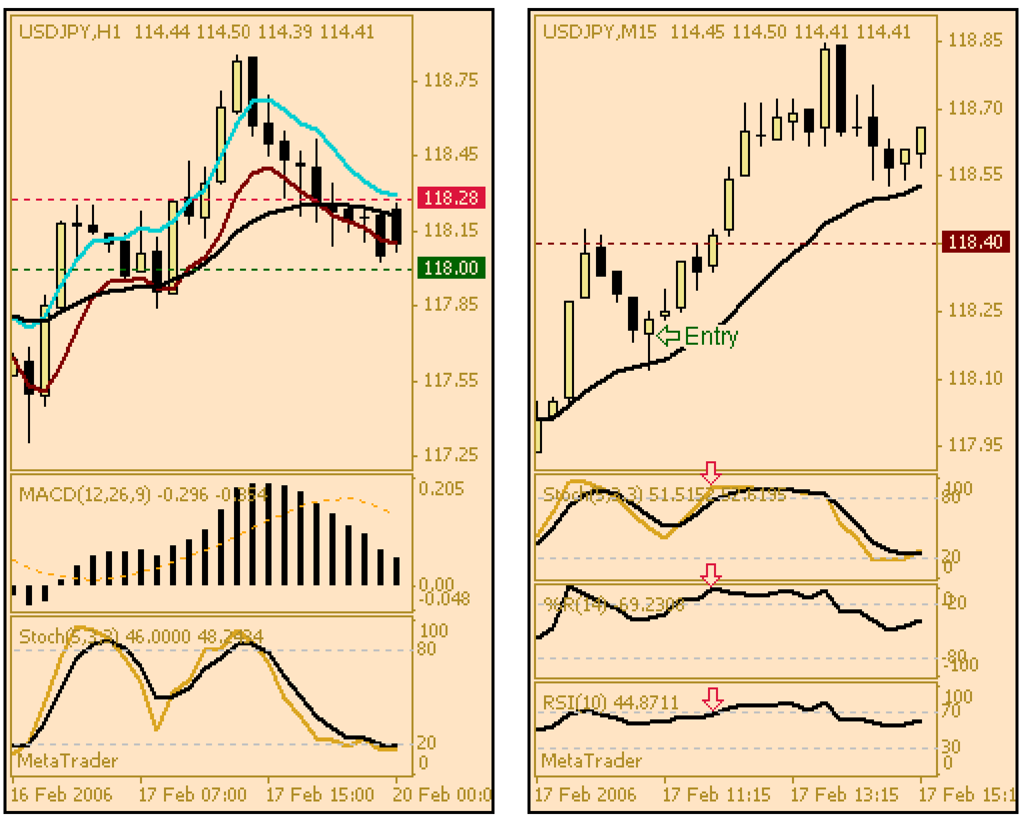
On the 15-Min chart, the price bounced from the 20 period EMA of the Closes so we opened an additional mini lot at 117.43.

Though the Stochastic was still in our favor, the Williams' %R and RSI began showing an oversold condition (red arrows on the 15-Min chart), so it was time to close our scalp trade at the 117.26 level [maroon line on the 15-Min chart].

In this instance, we managed to get an additional 17 pips - a very good result!

Long Position

USD/JPY



You've opened a long position at 118.00 using the Day-Trading system. The Take Profit order closed one mini lot at 118.28 and we moved the Stop Loss order for the remaining mini lot to the break-even point (118.00).

Our remaining mini lot is fully protected from loss and we can try to catch some additional profit.

The price is higher than both of our EMAs and, as a bonus, the 5 period EMA of the Lows is higher than the 20 period EMA of the Closes. Again, ideal conditions to scalp some additional profits.

On the 15-Min chart, the price drops back down and bounces off the 20 period EMA of the Closes so we open an additional position at a price of 118.20.

Because all indicators show an overbought condition (red arrows on the 15-Min chart), we close our trade at a price of 118.40 [maroon line on the 15-Min chart]).

An additional 20 pips – another fine trade!

Conclusion

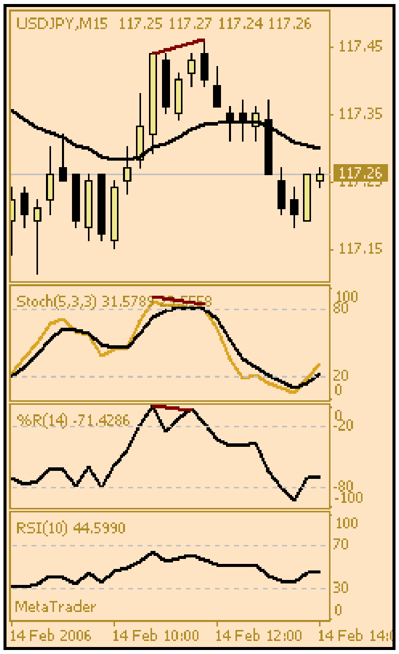
We covered the main trading rules for the 5 EMAs Scalping System so now let's consider some additional methods which you can use for scalping profits.

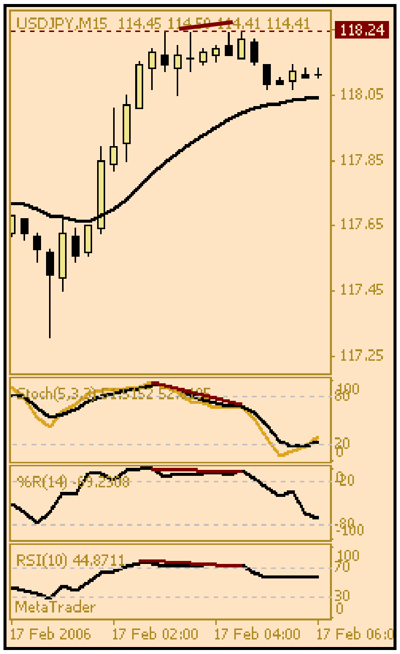
An alternative way to scalp profits

As the end of this book is approaching, I thought I would just highlight another reason why you should have read the **TraderBO Divergence System** book – yes, I know I keep reminding you but it is an important method to master. Here are a couple of illustrated examples of how to use it for scalping.

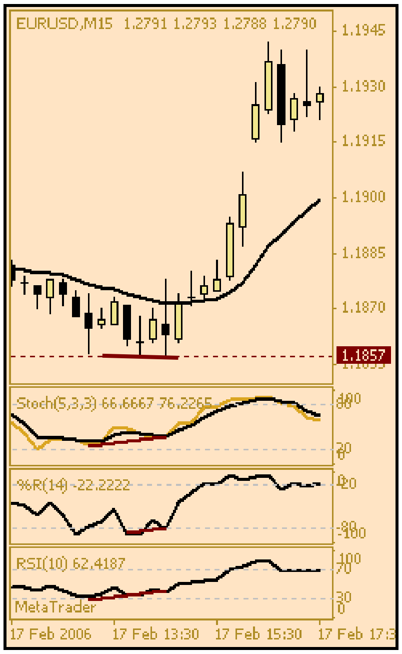
Divergence on 15-min chart

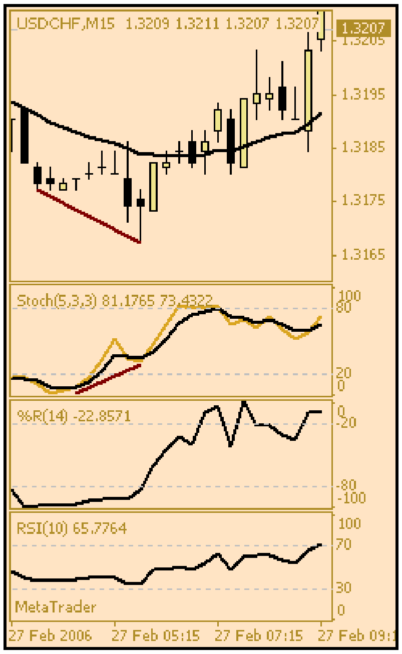
Short Position





Long Position





Conclusion for 5 EMAs FOREX SYSTEM – “Scalping”

At this point I’d like to finish this section on scalping.

You will encounter many opportunities to make use of the two methods I have shown you. Of course, there are lots of other scalping techniques but, it is far more important that you become proficient in one or two methods and actually make money from them, than to know 50 methods that you never use!

On this note, I’d like to wish you the very best of luck in your trading endeavors and recommend that you study this system thoroughly.

Yours sincerely,

Oleg A. But