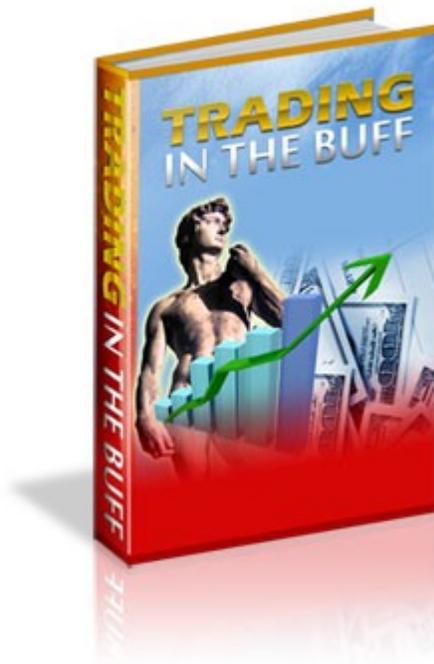


Trading In The Buff

The ability to trade without indicators and just use price action to have success trading forex



By

John Templeton

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Introduction

I wrote this book specifically for people that had been struggling with learning the fundamentals of price action and how it can be used to trade profitably.

I've grown sick and tired of having to rely on lagging indicators to tell me when I should buy or sell. I felt trapped like a robot just following it's instructions.

It wouldn't have bothered me so much if I was making money with it, but sadly that was not the case. I was losing money and more importantly, I didn't have a clue what the market was telling me.

I heard about trading price action from some of the more successful traders, but I didn't understand what any of it meant. After all, it is kind of a broad term. Price action could mean a million different things.

That's when I decided to get rid of all these indicators that were on my charts. They were just cluttering up space. If they weren't going to help me, I minus well get rid of them.

So I started to look at simple bar charts to see what they were telling me. For the first couple of days, ***they weren't telling me anything***. I became frustrated. I thought I was never going to understand this.

Then, all of a sudden, the penny clicked! I began to see what were the **REAL** support and resistance lines. I didn't use any trendlines, fibonaccis, or any of that stuff. It just became painfully obvious. Then I started looking to see what would happen if the price would hit these certain points. What would happen then?

After I put it all together, I came up with Trading In The Buff.

This is meant for all those people that are sick and tired of all these trading systems based off of Stochastics, MACDs, RSIs, and whatever else.

It's also meant for people that are overpaying for all the bells and whistles that charting platforms like TradeStation have. You **don't need to spend** any more money on fancy software. You can use this on a simple Metatrader MT4 chart (or any free chart that gives you real time quotes)

This also works for any currency. Obviously some currencies are more volatile than other ones.

As with anything, there is nothing that is foolproof. I can't say that every trade will be right 100% of the time. Because I can't get that in my trading. **Nobody can!** Losing is a part of any kind of trading. But, as long as you don't let things like fear and greed get in the way of your trading, you should be very happy.

The combination of trading with price action along with strong money management skills are the keys to long term trading success.

The course is setup so that after every chapter you read there is a video that is correlated with the chapter. So after you read Chapter 1, you watch the video for Chapter 1.

So, that's enough babbling from me. ***LET'S GET STARTED!!***

Chapter 1) Identifying the Move



Down move



Up Move

OK, you may be thinking this is going to be **great**. We're going to be able to tell when these major up moves and down moves happen right before they occur and we'll cash in on them. *Nope, Sorry*. I can't predict these kind of moves before hand. I don't think there are too many people that could.

Frankly, this could happen on a news event. When NFP (Non-Farm Payroll) numbers come out better or worse than expected, you usually see a move that resembles this. It doesn't matter. It makes **no difference** what caused it. The important thing is that it has occurred, and we will use it to our advantage.

We take advantage of it, after the fact.

I want you to put yourself in the shoes of traders who were in the market before those moves occurred. How do you think they feel right now? Well, I guess it would depend on which side of the market they are on.

Let's take a look at the down move for example. If you were long on this currency pair. How do you think you'd be reacting right now? Well, if you were a seasoned veteran of forex trading, you wouldn't be happy about a move going against you. But you'd still be even tempered about it, because

after all, you're a pro.

Now, let's talk about the people that aren't professionals. These are the people that react to every single pip move as if it was life or death. *How do you think they would be reacting?* Well, I'm sure there would be a lot cursing at the screen and saying things like “*why does this happen to me?*”

The interesting thing is that these people are the majority of forex traders that are out there. If you don't believe me, just look at the statistics: **95% of forex traders fail to make money**. I'd call 95% a majority, wouldn't you?

OK, so how would you react to the after effect of this move going against you? Well, a lot of people would double up again. They'd take another long, even after this move down went against them.

Why would they do that? For starters, they are probably nervous, and they don't really look at trading forex as *trading*, they look at it as *gambling*. Even though they will probably tell you they are *traders*.

It's the *same philosophy* that the out of luck gamblers have in Las Vegas. What happens when they are having a rough night at the roulette table? What do they like to do? Get **more money** to gamble. Their thinking is “*I got to get my money back*”

It's like they are at the point where they would be just thrilled to get out with as much money as they walked in with. It's sad but it's true.

The majority of forex traders who see a move like this go against them feel the exact same way. They are not interested in making a million dollars on this trade. They just **want out of this trade**. No ifs, ands, or buts. Just get me off of this ride.

What about the people that didn't double up, and went long again after the move down. Again, I am talking those hysterical traders that can't bear to see a move go against them (**you know the 95% of traders that are out there**). How are they feeling right now?

Well, I am sure they are having the same kind of feelings that the people who doubled down did. The only difference is that they didn't buy after the down move.

All these people are doing now is just having a personal conversation with God saying *“Please just get me out of this”*. *“I don't know what I was thinking.”*

Where do you think that most of these people are hoping the price goes to? If you said their entry price, you'd be right. **They just want to get out of this.** It doesn't matter what happens afterwards.

They want to know they came out of this unscathed without any major damage to their brokerage account.

And, of course this works the same way on the up move. I don't want to bore you with the same example again.

But let's get back to the down move again.

Let's put ourselves back into the minds of these panicky traders.

The currency pair can continue to keep going down, in which case we will blame everybody that's around us for this problem, except ourselves and wonder why in the world I got into forex trading.

The other option is if it goes up, we wait for the price to get back to our entry long and we hit that sell button faster than a speeding bullet. We have officially closed out the position. We can take a deep breath and feel that everything is right in the world, again.

Now, why did I go through this long and tedious example? What does this have to do with the tea in China, right?

I am just pointing out the mindset of your fellow forex trader. This is how

we use this to our advantage.

If you were paying attention, you might have some idea of where the resistance line would be. *I'll give you a clue.* It's the point where everybody wants to get out of this ride.

Let's look at the down move again and examine it a little further:



From now on I will use “1” to identify the first bar, “2” to identify the second bar, and “3” to identify the third bar. (Pretty clever of me, huh?)

To keep with our example, the hysterical trader would have been at No. 1 where the price was still in his comfort zone, then all of sudden, news comes out and then BAM! No. 2 bar comes in and scares him to death. No. 3 confirms that the price isn't ready to go up right away.

Ok, enough with the real world example, and let's put our technical hats on. Let's see how one bar compares with the other (*write these down, please*).

No. 2 to No. 1

No. 2 does not go any higher than No. 1

No. 2 goes **much lower** than No. 1

No. 2 closes **much lower** than No. 1

No. 2 closes **much lower** than *any part of the body* of No. 1



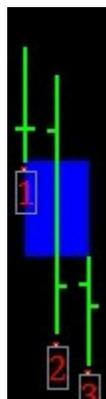
The main idea I want you get from this is the main separation between No. 1 and No. 2 is large. You don't have to put a number on this between highs, lows and closes, because it doesn't matter. **YOU CAN SEE IT!!**

Let's take a look at the No. 3 bar, now. This should just be like a continuation of a further move. The bar confirms that the overall short term bias is to the down side. I want you to notice two things when looking at No. 3 (*again, write these down please*):

- 1) No. 3 has a lower low than No. 2
- 2) The high of No. 3 is nowhere near the low of No.1

The first part is important because it shows that it wasn't some knee jerk move down (just to come back up again). There was a further continuation down, which would scare all the hysterical long traders even further.

The second part shows:



Even though the No. 3 bar went up a little higher than the close of the No. 2 bar, it never came *anywhere near the low* of the No. 1 bar. You can see the discrepancy in the blue rectangle between the low of the No. 1 bar and the high of the No. 3 bar.

Again, don't worry about the actual high, low, and close numbers. **If you can see it, that's the important thing.**

This is what I like to call the ***black hole***. This is the area that has to be made up for these hysterical longs to close out their positions.

Also keep in mind the No. 1 and the No. 3 bars shouldn't be huge. That's the job of the No. 2 bar.

The concept works exactly the same for an up move, except everything is vice versa.



No. 2 does not go any lower than No. 1 (it's close, but it doesn't)

No. 2 goes **much higher** than No. 1

No. 2 closes **much higher** than No. 1

No. 2 closes **much higher** than *any part of the body* of No. 1

No. 3 has a higher high than No. 2

The low of No. 3 is nowhere near the high of No.1

Ok, that's enough for right now. I want you to pull up a chart and just start looking for this pattern. I don't want you to think about how you are supposed to trade it, what it means, or any of that other stuff. (I'll go over that later. I

Promise, I Promise!!)

The key thing right now is just for you to see it **without any kind of hesitation**. Don't stop until this happens. If it takes you the entire day, so be it. I just want you to see it, so it becomes second nature to you.

It should stick out like a sore thumb. To me, it always looked like a staircase. If that analogy doesn't work for you, think of something that will. You can call it a peanut butter and jelly sandwich for all I care. Just become familiar with it.

By the way, you can look at any bar chart, on any time frame, on any currency pair for this. I'll go over the specifics of what I like to use later on.

Chapter 2) Spotting a False Move

OK, hopefully you've done the work I asked you to do from Chapter 1 and started trying to find the pattern on your bar charts.

I hope you scanned the charts backwards and forwards until that pattern is permanently engraved in your mind.

Now, I'm going to go over some examples of some *false moves*, just so we are in complete agreement of what it is we should be looking at.



What's wrong with this picture?

No. 3 bar never went lower than the No. 2 bar.



What's wrong with this picture?

No. 2 bar is higher than the No. 1 bar.



What's wrong with this picture?

No. 3 low is very close, even level, to the top of the No. 1 bar.



What's wrong with this picture?

The No. 2 bar is tiny (remember the No. 2 bar should be the big one) ***and*** There is no space between the low of the No. 3 bar and the high of the No. 1 bar.

OK, I hope this given you an idea of how to spot fakes. I could show you a million more examples, but I think that would just be overkill. These are usually the kind of examples where some people would confuse the pattern. Hopefully you were able to spot the mistakes right away. If not, it's time to go back to Chapter #1.

Chapter 3) Finding the Support & Resistance Lines

Alright, now we're getting into the good stuff! I'm going to go over how we use this pattern to spot support and resistance points.

I'm sure you probably have an idea where these support and resistance lines already are. It all has to do with the hysterical traders who want to break even on their trades. Those are the key points (aka Bar No.1).

So where exactly in Bar No. 1?

Well, there are *no concrete rules*, but what I have come to realize is that when it works perfectly, the major support and resistance points are usually between 6-12 pips to the low or high of Bar No. 1 depending if it's a down move or up move.



Let's start looking at some examples:

In this particular instance (EUR/USD), the low of bar No. 1 was 1.4558. The highest it ever reached was 1.4547 (which is within our 6-12 pip range below bar No. 1). So you can see that this worked out quite perfectly. The moment it hit 1.4547, it hit a major resistance point, which lasted several bars until finally the currency pair went down.



Here is another example. The “1” “2” “3” bars are absolutely perfect. This is the quintessential pattern. The low of Bar No. 1 is 1.4451, the highest it ever reached was 1.4435. A difference of 16 pips. Not quite in our range of 6-12 pips, but you can see what happened. The point is they don't always work out exactly. The 6-12 pip range is more of an outline. Let's look at some more.

Sometimes it's not perfect:



In this particular example, the low of bar No. 1 is 1.5668. The highest it went to was 1.5700. This one would have gone **against** us before it went **with** us.

The point I'm trying to bring out is that it's never exact. *Nothing in forex is.* But I want you to start to see how and why these are resistance areas. You could just envision all the nervous traders who were long before bar No. 2 collapsed. They are just hoping for it to come back up and when it does, they close trades like there's no tomorrow.

Let's start looking at some buys.



Here's another interesting one. This buy went against us for a little bit. The high of Bar No. 1 was 1.5673. It actually went as low 1.5634. BUT notice it never *closed* below the *low* of Bar No. 1. **That is very important.** I will go over this a little more later on, but just keep that in the back of your mind.

Let's look at some others.

Here's a small buy pattern, but the concept is the same:



Exactly, like the last example. We were down a little bit on the trade, but it never closed below the low of bar No. 1.



Here is a really pretty 1-2-3 setup. The high of this particular bar No. 1 was 1.5505 and the it eventually went as low as 1.5485. But you could really see the strong support it had at that point. It just couldn't break that support area before it eventually went back up.



Here is another example of just how strong these support lines are. In this case, the high of bar No. 1 was 1.5812, while the lowest it ever went was 1.5811. You could see how many times it tried to break that support line without no avail.

OK, I think I've showed plenty of examples of how these kind of patterns lead to strong support and resistance lines. Now go check it out for yourself. Go look at your charts and spot the 1-2-3 patterns and see what happened when the prices hit those areas of support and resistance. ***Fair Warning:*** Some of them fail. Nothing is set in stone in forex trading. But the main point I want you to get is what happens when the price enters the area.

Also keep in the back of your mind about when the price **can't close above the high of Bar No. 1 on a short play** and vice versa for long plays. You'll probably notice them a lot.

Don't worry about coming up with a trading system when you are looking at these. You might be eager to. Just hold off on it. We'll get into it later. You're not quite ready for that just yet. Just observe for right now.

Chapter 4) When it breaks Support and Resistance

After doing some backtesting, I'm sure you noticed times when the support and resistance **did not** hold up. Well, I'm going to show some examples of that. I want you to think about this as like a complete 180 degree turn of the market. It's just like when all those tech analysts say “when support or resistance is broken, it's **BROKEN**”. This is exactly what they are talking about.

For these I'm going to put grid lines on the chart. *This is important.*

Let's take a look at some examples:

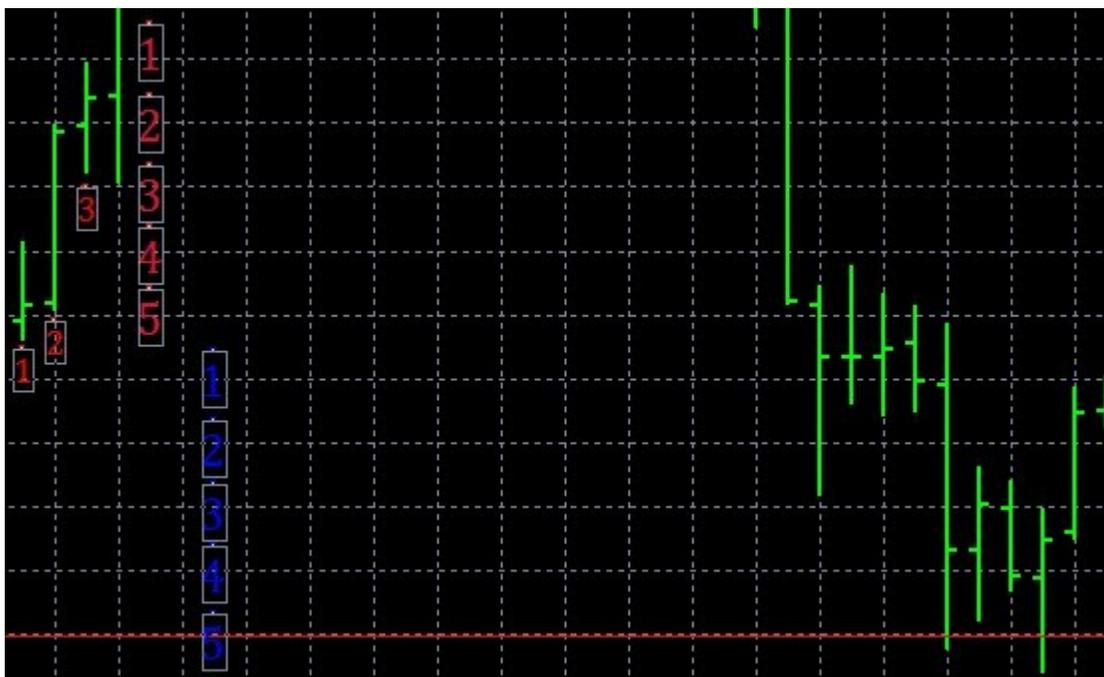


OK, this may seem very strange to you at first, but just try to follow along with me.

First spot the 1-2-3 sell pattern (small red numbers). You see that in this particular case, the sell did not work after there was a **really strong** close above the high of Bar No. 1.

Now, what I want you to focus on are the number of horizontal gridlines on the grid that encompass the 1-2-3 pattern. I counted 5 horizontal lines as you can see by the red numbers I put to the left of the 1-2-3 pattern. This lets us know how strong a downward move this was. Using the theory of *every action has an equal and opposite reaction*, we should expect the same kind of reaction to the upward side.

So by the same token we will have a move that should cover at least 5 horizontal lines **above** the high of bar 1, and that's **exactly** what we get (5 blue numbers). The price goes exactly the same amount of horizontal lines against 1-2-3 sell pattern. What this basically means (for a sell pattern) is that if the price closes strongly **above the high** of bar No. 1 we have a **very good idea** of where its going to go.



Here's an example of a 1-2-3 buy pattern that did not work. But notice the horizontal lines. The pattern itself took up about 5 horizontal lines. Take a look at how many horizontal lines it went ***against*** the 1-2-3 pattern. It went about 5 lines against it. Hmm.. pretty interesting. We might be on to something here.

Let's look at another one.....



Wouldn't you know it? It happened again. The 1-2-3 buy pattern did not work. The pattern encompassed about 7 horizontal lines, and it eventually went about 7 horizontal lines below the low of Bar No. 1.

I think I'm starting to see a pattern develop, how about you? The truth is the majority of the time, it will *at the very least* go in the equal number of horizontal lines in the opposite direction. Most of the time, it will go even *further*. You have to remember, this is almost like a counter trend move, so it definitely has **momentum** on its side.

You only have to think about it from the perspective of the support and resistance lines. After backtesting those support and resistance lines based off of the 1-2-3 patterns, you should know how strong they are, by now. You saw how hard it was for those areas to break. So when they break, it's like a dam bursting. IT'S BROKEN!!

After reading this chapter. I want you to do more backtesting. This time I want you to see the times the 1-2-3 pattern *did not* work. I want you to notice where the price ended up going, after it broke the pattern.

Chapter 5) Going With The Trend

You hear many forex analysts and gurus say this term: “*Trade with the trend*”. It's pretty good advice. Unfortunately, many people don't. The reason is that many people don't know how to spot the trend. It's really easy to do. There are actually a couple of ways of doing this.

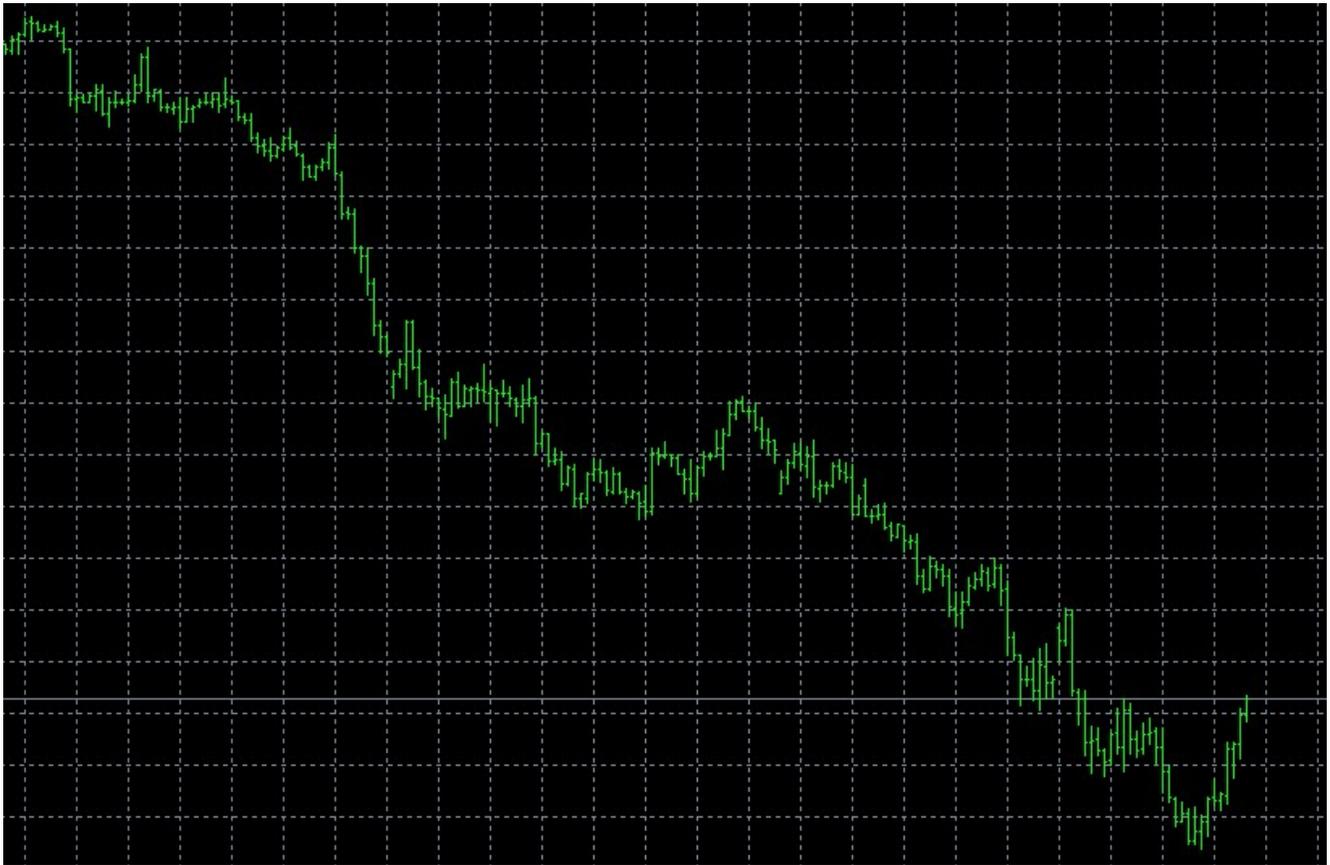
Let's start out with the most obvious.

Just pull up a long term chart (4 hours and above) and see which direction it's going from left to right.

Remember not to over complicate things. That's what usually destroys brokerage accounts.

Many people think that there is some secret to knowing what the trading bias is on a currency pair. ***There is no secret.*** Anybody can spot it.

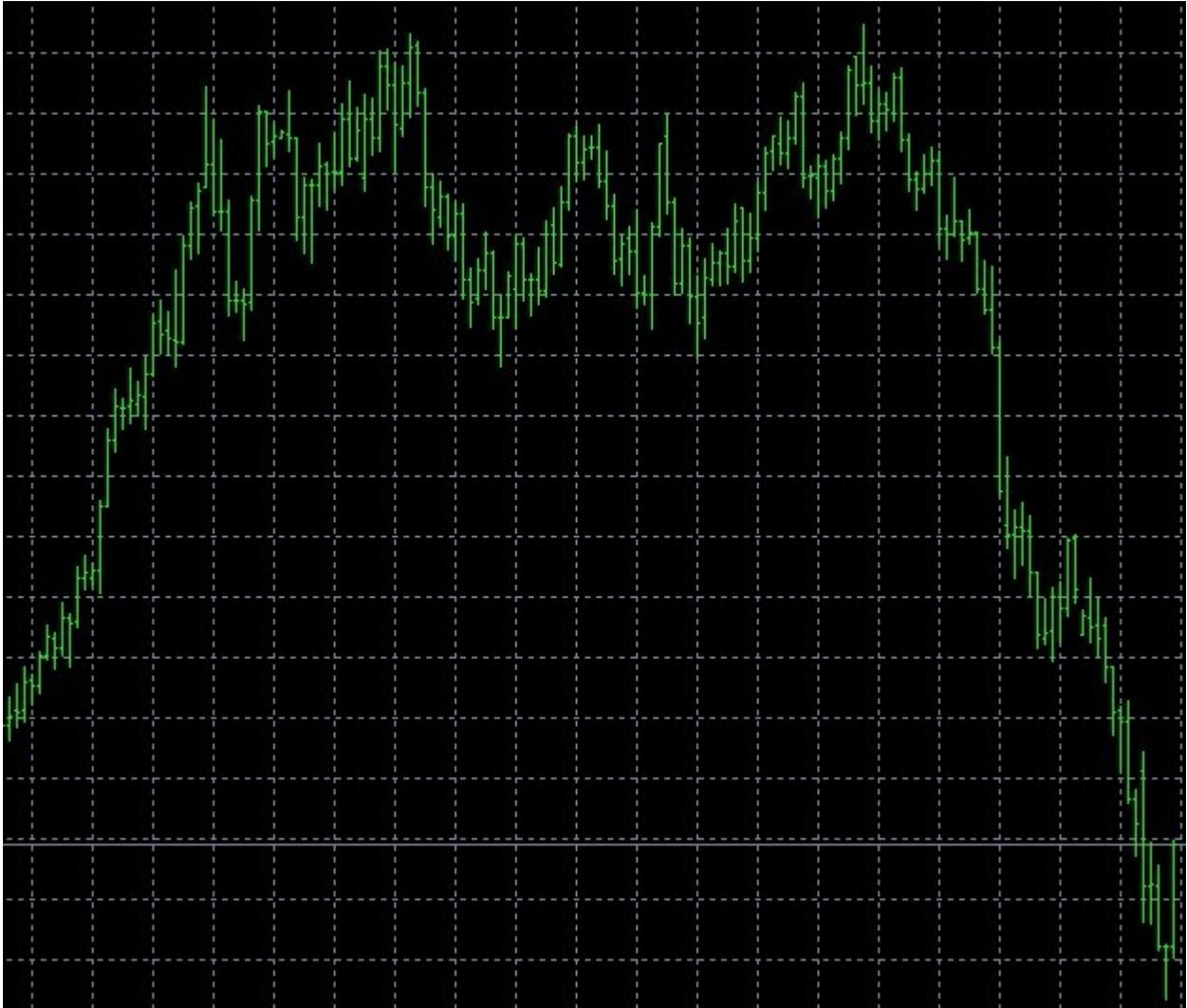
Let's take a look at a 4 hr chart on the EUR/USD on September 12th 2008:



OK, is there anybody who doesn't have an idea of where the trend is right now? It's really obvious that there is a downtrend.

It's this easy. Anybody can do this. You're just starting from the left and ending up on the right. Which way did it go?

You want to go from time frame to time frame to see if the trend matches. So for instance, in this example we have a down trend on a 4 hour chart. We would pull up a daily chart to see if it was similar. Let's see what that looks like:



Yep, pretty evident that it's a downtrend. So we have 2 long term charts telling us where the bias is going (downward). You could just imagine how many 1-2-3 sell patterns are within this large downmove on lower timeframe charts (1 hr, 30 minutes, etc). You could just envision all the resistance lines you can come up with just looking back at this monstrous move down.

So, not only are you trading with the 1-2-3 sell patterns, but you are also ***trading with the trend***. So instead of using pivot lines or fibonacci retracements or whatever it is that the 95% of losing traders are doing, you'll have a really good idea of where the ***REAL*** resistance lines actually are.

Let's look at another way of how to go with the trend.

This requires, again looking at a long term chart, (4 hrs and up)

So instead of just reading left to right we are going back to what we learned in Chapter 4 to see if we can find long term charts, where price has broken the support or resistance lines on a long term timeframe. This should pretty much tell you where the trading bias.



This is a weekly chart. Each one of those bars represents a week of time. (If this doesn't tell you the trend, nothing will).

I highlighted the 1-2-3 sell pattern. It looks like it was from August to September of 2005. Notice when that support was broken in April of 2006.

What do you think that's telling us about the trend. Remember this is a weekly chart. **A weekly 1-2-3 pattern was broken.** There should be bells going off letting you know that there should be a long term up trend coming our way, and that's exactly what happened. At the very least, it should cover the number of horizontal lines that this 1-2-3 pattern encompassed but to the upside above Bar No. 1. It looks to be about 5 horizontal lines, and it went

much more than 5 lines above bar No.1, after it broke the pattern.

Let's look at another example:



This is another weekly chart. I've highlighted the 1-2-3 buy pattern. As you can see, that support line did not hold. You could see where it broke and closed below Bar No. 1 (red arrow). You can see what happened after that. There is your trend right there. The moment that weekly bar closed. You should have some idea where this thing is going to go for the next few weeks.

The whole point of these examples is to show you where the trends are. The trend doesn't give you necessarily entry points, but they do give you direction and that's even more important.

Let's look at another example to make sure you are understanding this correctly:



THIS IS A MONTHLY CHART!! You want to know where the price was going to go that year, all you needed to do was look at this.

I highlighted 1-2-3 buy pattern. You can see where that monthly bar closed below Bar No. 1 (red arrow). When that happened, you **knew** that is was going to be a down couple of years for 1999-2000. It was all there in black and white. Can you get a better trend signal than that? I don't think so!

Homework assignment before reading the final chapter: I want you to look at nothing but long term charts and see if you can spot the trend. (This should be easy after these examples.)

Chapter 6) The Different Ways of Trading This Method

OK, we went through all the theories and examples. Let's get to the nitty gritty and see how we trade based on this information, that I just presented.

Before I get into this, I just want to stress that I don't like to think of these trading methods as ***mechanical***. I know that's how most people would like to view trading strategies as. But I don't like that term. It makes it sound like you are a robot.

Successful trading requires human thought. For instance, if you were trading during the NFP (Non-Farm payroll) announcement, do you think that you would be trading any system, ***mechanically***? *I really hope you said no.* My point is keep an eye on what's going on in the markets. The truth is ***nothing*** can be traded mechanically. The forex market is more news driven than any other market, so you should be aware of what's going on in the world and how it affects the particular currency. You don't have to stress over this. Just be conscious of what's happening.

OK, enough of the lecture. Let's get to this. Here are some of the ways you can trade with the 1-2-3 bars.

Just trade the support and resistance lines:

Obviously, one way to go with this, is just to trade the support and resistance lines that the 1-2-3 bars create, irregardless of trend. There is nothing wrong with this strategy. As a matter of fact, it has a winning percentage of about 75-80% in backtesting. That's ***a lot*** better than most traders do.

You could do this from a 5 minute chart all the way up to the longer timeframes. I personally don't trade anything below a 15 minute chart. That's just my personal preference.

But if you're a big fan of scalping and getting in and out of the market a bunch of times everyday, then the 5 minute charts may be right up your alley. What you might notice sometimes, is that there is a 1-2-3 pattern on the same move over different time frames. For example, a 30 minute chart will have a 1-2-3 buy pattern at the same exact time and place as the 1 hour chart. *This is a really good sign.*

Also, how do we know where to close our trades? Ahh....the old dilemma, A couple of ways of doing that using this strategy.

One way is that you could close them after a specific number of pips. This is not very scientific, but you could just say if I get 30 pips a trade, I'd be happy.

Another way of doing this, is to just close the trade at what your stop loss would be. So you are getting a similar risk to reward ratio. For example:



This is a 1 hour chart. In this trade, Bar No 1, has a low of 1.4163, which would mean, we would have entered this trade somewhere at 1.4151- 1.4157 (6-12 pip differential).

The high of the bar No. 1 is 1.4198. Granted, we wouldn't close our short for a loss unless a bar **closed** above 1.4198, but we can still get a decent idea of what our risk is. It's roughly 43 to 49 pips (1.4198-1.4151 or 1.4198 –

1.4157). So what that means is, that our take profit should be 43 to 49 pips below our entry so we have an even risk to reward ratio.

Another way of choosing a take profit is to just look for opposing 1-2-3 support and resistance lines.

Going by the previous example, we took a short, so we need to find where a 1-2-3 buy pattern can be used as support.

So since we used a 1 hour chart. We start scanning this time frame to see if there are any visible 1-2-3 buy patterns further down that would act as a strong support area, which would be an effective area of where we can close a trade.

If you don't spot one, then you can go to a lower time frame and see if you could find one there. So pull up a 30 minute chart and see if you can find a 1-2-3 buy pattern in the area. Still no luck, pull up a 15 minute chart. Eventually you will find one that will act as a support area, where you can close your trade for a nice profit.

Yet another way, is to see if you can spot 1-2-3 buy patterns that will be, or have been broken previous to your entry and haven't hit their target, yet. For example:



The numbers on the 1-2-3 sell pattern which we'll be trading are colored in red. Once we have entered the trade you can see that there is a small 1-2-3 buy pattern as well, colored in blue.

So what we can do, is wait for a break of the pattern, which would be a close below the Bar No. 1 of the buy pattern (blue color). Once we get that, we instantly have an idea of where to take profit, now. Since the Buy 1-2-3 pattern covered 3 horizontal lines, the break of that, **should cover the same exact amount horizontal lines**. So we can put a take profit where the blue line is, because that is 3 lines below the Bar No. 1 of the buy pattern.

I'm not trying to give you all these different options to confuse you. I'm giving them so you have choices. ***I don't know you***. I don't know what kind of trading style you like. I don't know how busy your day is. I don't know how much time per day you have to trade forex. I don't know how you handle your emotions when you are in a trade.

I'm giving you all these options, because hopefully one of them appeals to you, over the others. Remember, there is **no right or wrong way**. If by the end of each month, your account is growing, then that's the ***only thing*** that matters. Stick to what works best for you.

In Summary:

Stop losses for buys:

A **close below** the Bar No. 1 of the 1-2-3 buy pattern.

Stop losses for sells:

A **close above** the Bar No. 1 of the 1-2-3 sell pattern.

Take Profit options:

Close the trade after a specific number of pips

Make your take profit equal to your stop loss, so risk:reward is about 1

Close the trade at other points of support and resistance based on the 1-2-3 pattern.

Check any 1-2-3 patterns that have been broken or will break to see where your exit point would be.

Just trade the counter trends:

Another way of trading with the 1-2-3 patterns, is to just simply trade the counter trends. This is when a support or resistance point breaks.

Buy Signal:

This is when a bar **closes** above the Bar No. 1 of a 1-2-3 sell pattern. This indicates the price is going up.

Sell Signal:

This is when a bar **closes** below the Bar No. 1 of a 1-2-3 buy pattern. This indicates the price is going down.

The tricky part is when do we enter? I have two schools of thought on the subject.

Using a previous example:



In this example, we had a 1-2-3 buy pattern that broke. I would have to had gone in on the exact bar that it broke (red arrow) to catch this move down. So when that bar closes, I could have entered a short at whatever the price was when it closed, because it closed below the 1-2-3 buy pattern.

Another way of doing this:



Using this example, we have 1-2-3 buy pattern that was broken on the bar with the red arrow. Now, we could have shorted right away the **moment** we had a close below Bar No. 1, just like we did in the last example. But in this particular case, we could wait for the upward retracement, and go short at a better entry.

If you want to play the counter trend this particular way, I recommend that you have an entry at the low of Bar No. 1.

The reason I say this, is because the low of bar No. 1 was originally our last support line. **Think about it**, when a bar closes below bar No. 1, that's the end of the support area.

So what happens to the support area once it's broken? You guessed it. It becomes the **resistance** area. So that's why I recommend using the low of Bar No. 1 as the entry point.

OK, so which method should I use? Should I just jump in the moment the support or resistance area breaks and we have a close above or below bar No. 1?

The answer is *it depends*. Sometimes when the support or resistance breaks, the price will just keep on going (like the first example) without any kind of

slowdown. Other times (like the last example), there will be a retracement and you can get in at a better price.

So, the risk is, you can get in at a better price, but if there is no retracement, you might miss the whole move.

One thing that I have noticed (and you can judge this for yourself, with just a simple backtest) is that it when there is no retracement, it usually happens at more volatile times. You could even see it on the bar itself.

When there is no retracement, the break of Bar No. 1 is ***massive***.

This is sometimes due to news. If some unexpected news comes out that no one was expecting, that could be a reason. There could also just be some good old fashioned market manipulation going on.

The point I'm trying to make is that you have to keep your eye on the market to see which case it might be.

If you are uncertain, just take the entry the moment there is a close above or below bar No. 1. You might not get in at the best position, but at least you got in.

The Trend is Your Friend (My Way)

The method that I personally use doesn't get into as many trades as the previous options I gave you, but it fits my personal trading style best.

I personally always try to trade ***with the trend***. I feel more comfortable knowing I am trading with the same bias as the market.

So here's what I do:

1. First I try to recognize the trend of the particular currency pair, (remember Chapter 5.)
2. So I take it from the longest period on down to the shortest. I start at a

monthly chart and I work my way down to the 4 hour chart.

3. I try first reading from left to right to see which way the price has been going. I go to each of the time frames and I write down next to it, where the trend currently is. So for example, I might write down:

<u>Timeframe</u>	<u>Trend Direction</u>
Monthly	Up
Weekly	Down
Daily	Down
4 Hr	Down

So, in this particular case, I would certainly be thinking that the trend is moving down.

4. Next, I try the other way of spotting a trend. I see if there are any 1-2-3 patterns that have recently been broken and have yet to hit their targets. So, once again, I start on the monthly chart and work my way down.

If I notice any particular 1-2-3 price patterns that have been broken, I write down on which timeframe it was, which way its headed, and what kind of target I expect. So for instance I might write:

Weekly 1-2-3 Sell Pattern break.

Buy Trend

Target 1.4723

5. So now I have to gather my data to see where I stand. On step 3, it's pretty obvious we are in a down trend. But in step 4, after seeing that 1-2-3 sell pattern that broke, on a weekly time frame we're looking at a buy trend. So which way are we going? Step 3 tells us down, Step 4 tells us up. I always go with Step 4.

You may ask why I bother with step 3, if I'm just going to go with Step 4? The truth is you might not find 1-2-3 price break, so in that case I always use step 3 to tell me which way the trend is headed.

For this example, now that I've got my buy trend, what's next?

6. Next, now that I know we're looking to buy, I try to find a good 1-2-3 buy pattern on the chart. Since we saw the 1-2-3 sell break on the weekly timeframe, I'll be looking at anything lower than a weekly chart.

Note: So, if I had found the 1-2-3 sell break on a daily chart, I'd be looking for my buy opportunity at any time frame lower than a daily chart.

7. Hopefully I find a really good 1-2-3 buy pattern that I can use as an entry. I put a buy order in. And, you might have guessed where my take profit is. I go back to step 4, to see what my target was from the weekly chart, and that's my take profit. So you could just imagine how great a reward to risk ratio I have on this trade.
8. I do this for all the currency pairs that I trade. This way ensures me that I am trading *with the trend*, and it makes me a more comfortable and successful trader.

That's about it. I choose this method because it works best for my particular lifestyle and trading habits.

But frankly, any of the methods that I have mentioned will work excellently. I tried to give you as many options as I could.

The truth is, with the information that I have just given you about price action, you might be able to come up with a trading method that suits you the best. The information is all there. You just have to apply it. You may come up with a method using this information, that *I hadn't even thought of*. The main goal of this was just to teach you how price movement can be predicted in an accurate manner.

Recommended Brokers

I know finding a forex broker that you can trust can be extremely difficult (BELIEVE ME, I KNOW). The truth is there isn't a broker in existence that you will be 100% happy with all the time. It's just the nature of the business. However, I do have some brokers (through my own experience) that I can say are pretty solid and I have been very satisfied using them.

Etoro - This broker is really good for beginners. It has a very accessible trading platform, and has some entertaining tools that will make the transition to forex trading a lot easier. It's really cheap to fund an account. You can have an account opened for as little as \$50. You could even open it with your credit card. They also have good, strong customer service in different languages.

Dukascopy – This is a high-end broker. They have been around for a long time. You need big bucks to open an account with them (\$10,000), however their spreads (consistent .5 – 1.5 spreads) are probably the lowest in the industry. Their customer service is top-notch. Caters to just about every country in the world.

FX Cast - You don't have to have a broker who uses the MT4 Metatrader platform when trading live, because you could always just use a demo. However if you do want to trade with real money directly on the MT4 Metatrader platform, I have found that FX Cast is probably the best of the bunch. Their fills are usually a lot faster than most of the other MT4 brokers.

LITTLE REMINDERS

Before you finish reading this book I just want to give you some last minute reminders when trading:

- Remember to always trade with the trend. Look at it from a top-down perspective. For example if you were trading from like a 15 minute chart, you want to take a look at the 30 minute, 1 hr, and 4 hr charts and see where the trend is. See if there have been any support-resistance areas that have recently broken which could be signifying a possible counter-trend.
- Look if there are any setups on other time frames. For example if you have a 1-2-3 buy setup at 1.3783 on a 30 minute chart, do you have a 1-2-3 setup in that same area on the 1 hr chart, 15 minute chart, etc.....That's always a good sign when you see it on multiple time frames.
- Always keep your eyes on the news. News comes out every single day. Some of it is big, and some of it is not. You have to know what's coming out every day. If there is REALLY big new like NFP, you want to be weary of that, because that will affect the price as the price can get really manipulated in those instances.

Conclusion

I know most people say when you're trying a new trading method to *demo first*. I have no problem with this, but I strongly recommend that you don't stay on a demo for too long.

The reason I say this is because a demo can't simulate the emotion that happens when you are trading with real money. I can't even begin to tell you how many traders have made a killing on a demo account (trading their own methods) and they kept trading a demo for months and months. When they finally went live, they had no idea what it was like to play for **real money**, and it showed. Their accounts crashed and burned.

So I stress to you, to demo this until you feel *comfortable enough* or have devised a system of your own. Once that day hits, **stop demoing!** Start playing for real money. I'm **not saying** you have to play 20 full lots a trade or anything like that. You could play mini or micro lots, if you'd like. The point is to play with something at stake. Even if all you're risking is \$5 on a trade, I **guarantee** that you will trade with different emotions than you would on a demo, and you need to see how you'd react in that kind of situation. The best trading method in the world doesn't mean anything if you're too scared to take a trade.