

RTM | READ THE MARKET

WHAT IS THE CURRENCY MARKET?

There are in the world some well established financial markets like the physically located New York Stock Exchange (NYSE) and the Chicago Mercantile Exchange (CME), or electronic based markets like NASDAQ. In these markets traders are able to exchange shares, commodities, bonds, or currencies. On the currency market, also known as **forex market**, buyers and sellers have a place to exchange Dollars, Euros, Pounds, Yen, etc.



But why is there a need for a **foreign exchange market**? The forex market is an important tool for allowing business transactions be done between different currencies. Imagine, for example, the Chinese manufacturer who has an order of ten thousand t-shirts from a European wholesaler. The Chinese manufacturer, most probably will want to be paid on US dollars from the European wholesaler, who will have to change its euros to US dollars to pay the Chinese manufacturer. At the same time the Chinese manufacturer will need to buy cotton on the cotton market, traded in US dollars. In the end, this manufacturer probably will change the US dollars of profit to Chinese yuans, to spend it on goods and salaries in China, or maybe he or she is thinking of opening a business on England, so will change some of his US dollars to British pounds. Without a currency market, none of these transactions could be made fairly. Having a free market where thousands of participants could decide on the value of an asset is the most logical and fair way to give anything a value.

The foreign exchange market provides the machinery for **making international payments**, for **transferring purchasing power** from one currency to another, and ensuring that the relative value of each currency is clear and universal.

The Foreign Exchange growth

There were even money changers in Ancient Greece, but the foreign exchange as we know it has evolved a lot since then. Since the 1970's, **deep structural changes** have occurred in the world financial system and economy:

- A change in the international monetary system, from the **fixed** exchange rate specified on the Bretton Woods agreements, to the **floating** exchange rates in the early 70s 'til our days
- **Financial deregulation** through the world, resulting in higher freedom for financial transactions and increased competition among financial institutions.
- **International trade liberalization**, within multilateral trade agreements. Enormous expansion of international capital transactions.
- Huge **advances in technology**, allowing instantaneous transmission of market information, and fast and reliable execution of financial transactions.

- The development of **new financial instruments** and advances in the understanding of the financial system.

All of these provide fertile ground for development in foreign exchange trading.

In the first decade of the 21st century, the great technological advances in **internet** based trading have enabled the small retail trader easy access to the forex market, traditionally the domain of global banks.

Who are the participants?



Because you will trade with (or perhaps against) them, it's very important to know who are the players in the currency market:

On the top of the hierarchy there are a group of **major banks** whose trades massively affect exchange rates. They are connected for this trading through two electronic services, EBS and Reuters Dealing. These banks form a network known as **the interbank market**, which is the center of the Forex Market, and from where is derived the exchange rates your dealer offers you. These major banks trade for costumers, but also for the banks' own accounts (what is known as **proprietary desks**, or just "prop desks").

Governments and Central Banks are special kind of participants, as they cause changes on the exchange rates prices due to their monetary or fiscal policy, especially with **interest rate** changes.

Dealers and **Brokers** provide clients access to the forex market, charging them a part of the **spread**, a **commision**, or both. They make their profits through these charges, but very often also maintain positions against their own costumers. In the worst cases, they also profit from cheating the costumers, shading the price, spiking zones to run orders, or using requotes or slippage when there was no real slippage of the price. These practises are the reason many people prefer to trade just on regulated markets, and why you should be careful when choosing a dealer.

The difference between dealers and brokers is that brokers just give you access to the interbank market (to some of the banks they work with acting for them as **liquidity providers**), sending your order to the market, while dealers don't send your order to the market, but give you counterpart. Have in mind that many so-called ECN brokers use this denomination mainly for advertising purposes, but will give you also counterpart unless your orders (or the sum of various customer orders) reach the minimum acceptable in the interbank, 10 lots or 1 million units.

The rest of the participants in the forex market generally could be clasified on two categories: **financial transactors** and **speculators**. While financial transactors need to participate in the FX market as part of their overall business, speculators are in it expressly for the money.

Financial transactors mainly are hedgers and financial investors. As financial transactors, **corporations** participate in the FX market to **hedge** the risk of currency change to protect benefits, while **financial investors** need to exchange currencies to make international investments. So their business is on other places than the forex market, but they need to serve themselves from this market to run their business and reduce risks.

On the other side, **speculators**, who makes about the 90% of the forex volume, are those participants whose primary aim is to obtain profits from their views on the market. **Hedge Funds, CTAs** or the already cited **bank's prop desks** are the big boys on this category, while the small **retail traders** usually find themselves at the bottom of the forex pyramid.



Spot FX

When we talk about Forex trading usually we refer to just one kind of product, the **spot**, which means that the trade is done with the price which is traded now, or "on the spot". It is the trade of the current exchange price, with a settlement of a maximum of two days. Spot is the most traded product in the FX market, with a volume of 1.5\$ trillion from a total of 4\$ trillions traded every day, based on the figures of the 2010 survey of The Bank for International Settlements (BIS), the international supervisor for banks around the world. It opposes other [forex instruments](#) like forwards or swaps in that in these products the settlements take place on any pre-agreed date three or more business days after the deal date.

Apart from these **Over The Counter (OTC)** products, we could find two Forex products in organized exchanges: currency futures and currency options.

Main characteristics of the Forex market

Why would you like to trade on FX? The forex market has some characteristics that make it very attractive for traders, like huge liquidity, low trading costs, or the chance to trade at any hour.



First of all, the Forex market is an **unregulated market**, also known as OTC (over the counter). Being unregulated means that it has not a central market nor regulator that dictates prices and rules, but instead is formed by a number of banks and dealers that permit the trading between participants, allowing each bank or dealer to decide its own prices.

For many people this is the main disadvantage of the forex market, because of the dealers' opportunity to manipulate prices. But, at the same time, this unregulation creates competitiveness between the dealers for offering tighter spreads and better service.

Anyway, being a regulated market doesn't mean being free of price manipulation. It just means that the manipulation can only be done by the regulator of the market, like the CME on the future markets, having the monopoly of the market rules, and being able to change them at any moment.

Because it's a non regulated market, FX **doesn't have a strict predefined schedule**, but it is possible to trade it every day at every hour, avoiding in great part the opening gap risk so important in other markets. In practice, because of a big liquidity drop due to the closing of banks, weekends used to be non tradeable because there are often no big moves and the spread is very wide due to very low liquidity. Also, because their liquidity providers (the banks) are closed, most of the forex brokers use this time for server maintenance, and close between the close of the Friday NY session, and the open of the Wellington and Sydney Monday session. So it's better to take advantage of the weekend to disconnect and refresh the head, and to plan and prepare the next trading week.

These **sessions** are practically defined due to the open hours of banks in every timezone. It's widely considered that the week starts with the Monday opening of the Wellington banks and the rest of the Asian zones, and closes when New York closes Friday afternoon. Also this means that when banks are closed (bank holidays) in a zone, liquidity drops during that time. The session in which more volume is involved is on the European (or London) session, mainly due to the overlap with the last hours of the Asian session, and the opening hours of the American session.

Another important characteristic of the FX market is the huge liquidity, which permits low operational costs. It's usual that dealers don't charge a direct commission; this doesn't mean it's free of charge, but this commission is included in the spread between the bid and ask price.

The Forex market is also a market with a great number of instruments to trade, so it's possible to diversify and to scan the market to look for the best opportunities. There are four major currency pairs (EUR/USD, USD/JPY, GBP/USD and USD/CHF) that involve a little more than half of all daily trading volume. The minor pairs (USD/CAD, AUD/USD and

NZD/USD) complete the principal trading pairs that include the U.S. dollar. Those pairs that consist of two non-USD currencies are called cross-currency pairs, or crosses (for example EUR/GBP, NZD/JPY or GBP/NOK).

Hope this article has been of help, and thanks for reading.

METATRADER TUTORIAL

It's advisable to have at least a basic knowledge of this software because most of the forex trading community use it. But also have in mind that there are other software with interesting features, that could help on the learning or analytic process; although the most important part of the long trading path will not be the software, but the trader's **knowledge of market behaviour**. So if you want to invest time, give preference to the knowledge, and, perfectionist friend, take care not to get bogged down searching for the perfect platform. What you will need essentially will be just a representation of price on a chart, the ability to see different timeframes, do some basic drawings, like trendlines or rectangles; features so basic that almost every trading software have them. You first need an **understanding** of the market and a **method** of trading, then, knowing what you're looking for in the chart, you could test different software for one that best fits your trading methodology. Even just for study, you'll need to know what you'll be analysing, and for that also you need to have an idea about how you will be approximating the market.

INTRODUCTION



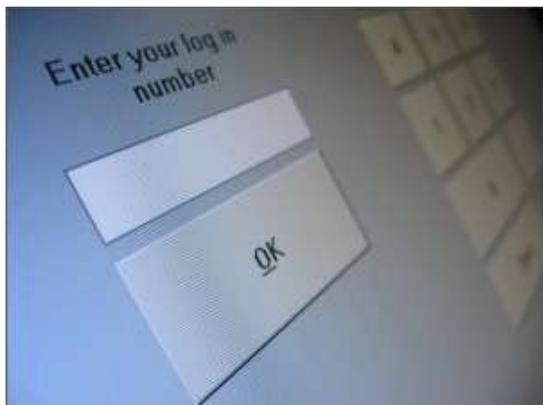
MetaTrader is a trading platform developed by [MetaQuotes Software](#) and widely used by retail forex traders. The development of the software started in 2002, and in 2005 was released an enhanced version, MetaTrader 4 (or just **MT4**), that became, between the years 2007 and 2010, **the most used retail forex platform** when its popularity increased and was adopted by a big number of brokers as their main or alternative trading platform.

In 2010 a new version was released, MetaTrader 5, with the possibility of being used on the stock or the option markets and theoretically of being faster in programming features, but MT4 is yet the most widely used, and the software version offered by most of the brokers, mainly due to the MT4 huge user base, the incompatibility between MQL4 and MQL5 (the MetaTrader programming languages) and the work already done by these brokers to adapt MetaTrader 4 to their systems.

The software consists of two components, the client one that is run by the trader, where he or she can analyze charts and place orders in the market, and the server one, run by the broker, that provides the charts data and manages the execution of the orders. The MetaTrader client is the one we're going to download and install on our computer.

There is also a [mobile MetaTrader client](#) that works for Android, iOS and Windows Mobile.

INSTALLATION & LOGIN FOR WINDOWS, LINUX AND MAC USERS



The first thing we need to do is to download and install the MetaTrader software, following the instructions and downloading the package from your broker site. If you haven't a broker yet, you could download MetaTrader from the [MetaTrader 4 webpage](#). Once downloaded, on a **Windows** operating system, just execute the .exe file and it will be installed and running in a minute.

The installation of MetaTrader4 is really simple. Usually the default options would be good, so it would be a next-next-next installation. Probably MT4 will be installed on C:\Program Files\MetaTrader 4, but take a look at the folder you'll be installing in, because we would want in the future to copy indicators or layouts to this place.

If you're a **Linux** or **BSD** user, you could use **Wine** to run MetaTrader on your system, having some necessary dependencies installed first in an easy way with **winetricks**:

```
$winetricks corefonts vcrun6
```

```
$wine MetaTrader.exe
```

Refer to your distro Wine documentation page for help on installing and configuring Wine, and the [Wine](#) and specially [winetricks](#) documentation for expand on this, if you needed. There is an [article](#) on the MetaTrader site explaining how to install MT4 on Linux. I think it is too much verbose and overcomplicated, but if someone has problems installing it as I explained, could take a look on this more detailed installation.

Mac users, also could use Wine, or use a non-free software called CrossOver. [This](#) is their own article on the MetaTrader site, much more concise than the linux one.

There is also the possibility to run MetaTrader inside a Windows [virtual machine](#) machine using software like KVM, VirtualBox, VMWare, Xen (or Parallels only on Mac machines), but with Wine MetaTrader just works great, and the performance could be as well, or even better, than on a virtual machine, without the costs on time, comfort and resources of a complete virtual Windows system. But if you want to assure that everything works exactly the same way as on Windows, then a virtual machine would be your preferred choice.

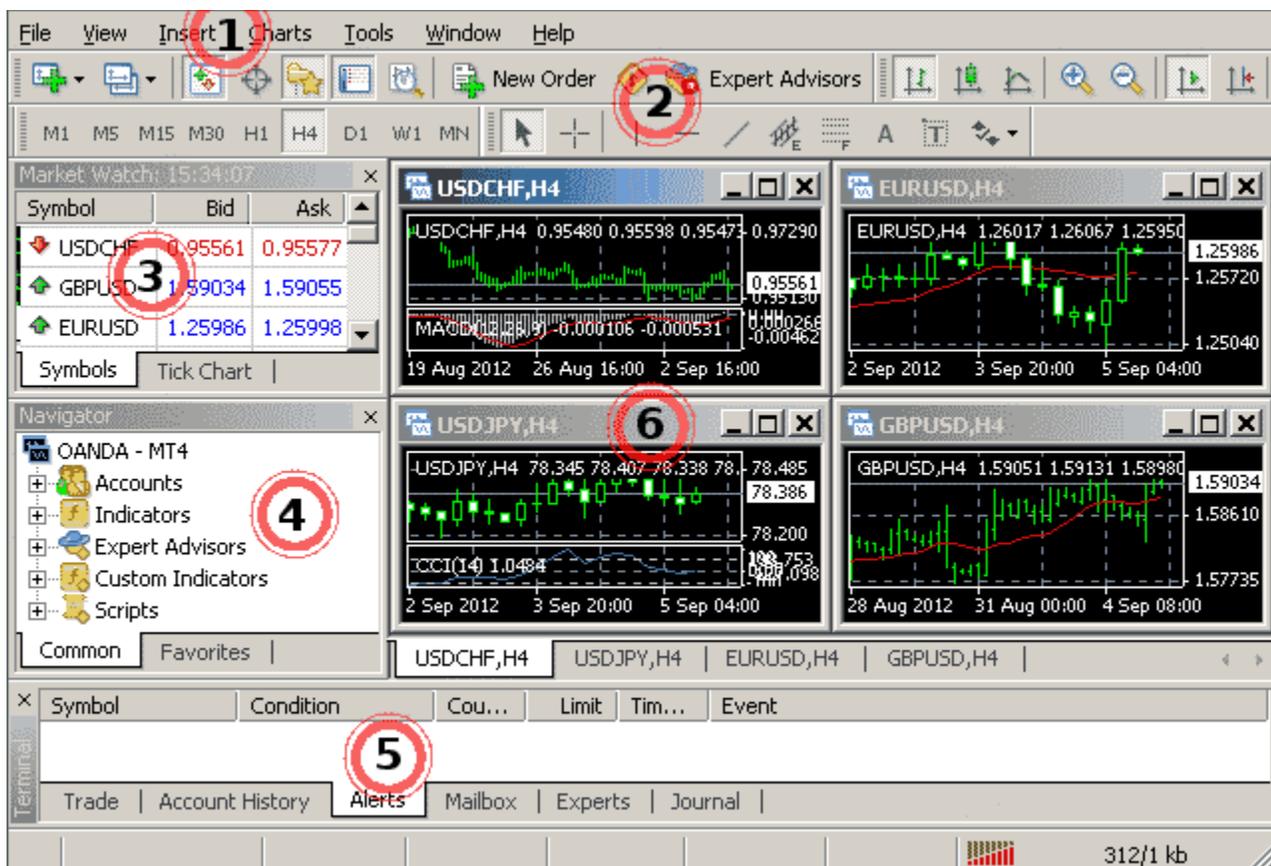
Once we have MetaTrader installed, the first thing it will ask for is to open a MetaTrader **demo account**. We could create one to better play with the platform, especially if we haven't a broker account, or we could close this window and then it will ask us to fill our broker MT4 username and password that has been provided us by this broker before. We could always open again these two windows in any time by just clicking on File (first option on the upper left side of the MT4 window), and selecting *Open an Account* or *Login*.

Now that we are installed and logged in, the party starts!

USER INTERFACE

The first thing we need to do is familiarise ourselves with the MetaTrader **interface**. I would suggest to **test every option you find** and see what happens. This way you will learn by discovering how the software options work and are organized, a much better way of learning than by just reading. But if you read a manual, or a tutorial like this one, test everything it talks about.

Take a look at this image:



It is the MT4 interface. We could divide this interface in 6 parts, that I numbered from 1 to 6 to better explain. Have in mind that usually there are different ways of doing the same thing, so you could choose which is most comfortable with you.

1. MT4 **menu options**. From *File* to *Help* here you'll have access to all the software options.
2. For ease of access we have some **toolbars**. With a click we could change the chart timeframe, create a new order, change between bar, candle or line chart, or add some drawings. These options are accessible from the options part of the interface, but are set again on this toolbar for comfort and speed of use. On the option *View>Toolbars* we could hide or show them, or customize them with our preferred and most used options

instead of the default ones. Also it's possible to move these toolbars by clicking on the leftmost part of each one (the part with the tiny horizontal lines).

3. The **Market Watch** window, where we could follow the prices and interact with a list of currencies, open a chart, sending an order, choosing what symbols show or which hide, or creating different lists of currencies.
4. From the **Navigator** window we could change between our MetaTrader accounts, choose indicators or EAs, or run scripts.
5. The fifth part is the **Terminal**, where we could have information about our trades, account history, and other things.
6. And last but not least, the sixth part, our **charts**. This is the central point around which all other elements exist and get sense.

Now that you have a general view of the interface, have in mind that you could customise it, hiding or showing parts, or even going to full window with just the charts (pressing **F11**). Take some time to test the different options of the *View* and the *Window* menus. The *View* menu is where almost all the general interface customization options are, while the *Window* menu is more chart focused.

BASIC CHARTING

The *Insert*, *Charts* and *Window* options are mainly **charting options**.

From the *Insert* options we could add an indicator, or choose a type of drawing. Indicators could also being selected from the Navigator windows, while we have many drawing icons in the toolbars.

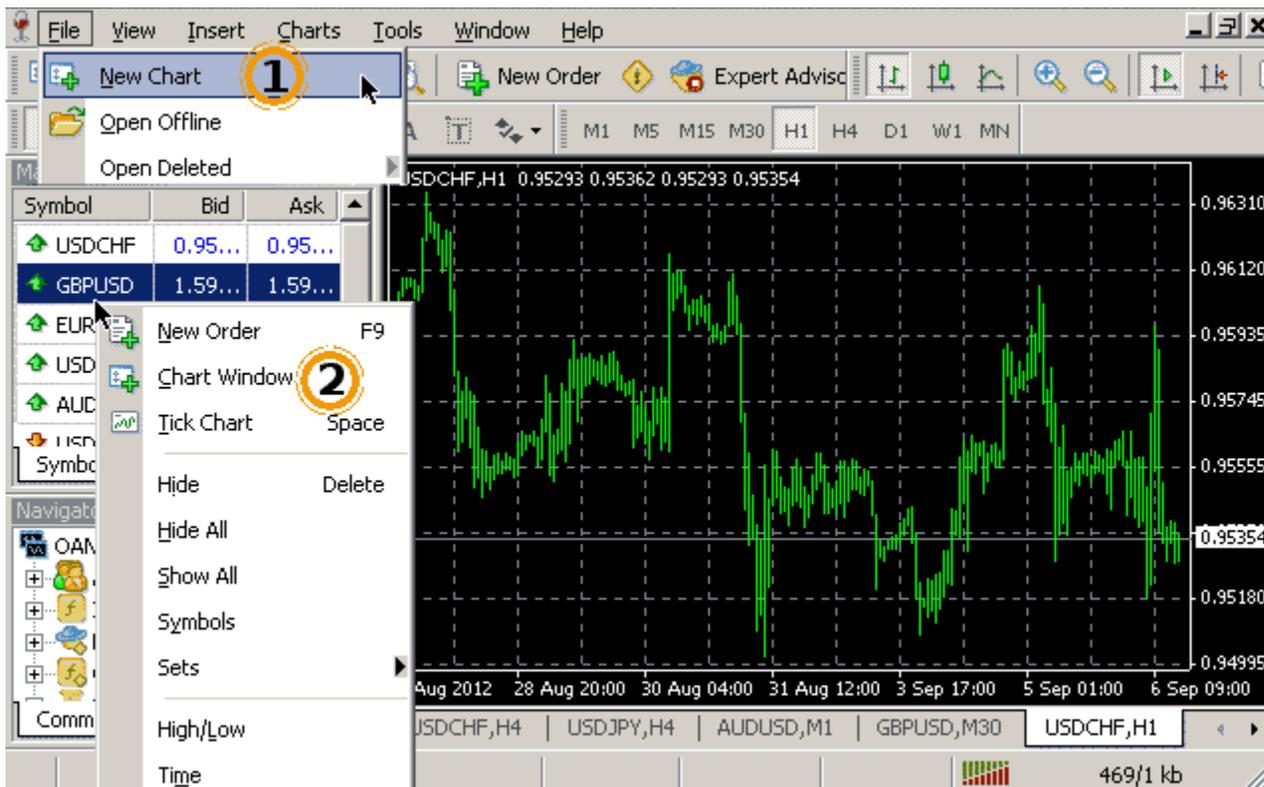
From the *Charts* options we could choose the timeframe, the charting style (bar, candle or line), hide/show the grid or the volume, etc. The last *Charts* option is the **properties** menu of the chart (**F8**), where we could change the colors, among other things.

Test every option to see how they work and what we obtained on the chart.

Through *Charts>Templates* we could load or save different configurations of a chart, like the use of some indicators or colour schemes, so it could be easily reusable on new charts.

In the *Window* options you could arrange the different charts for your taste.

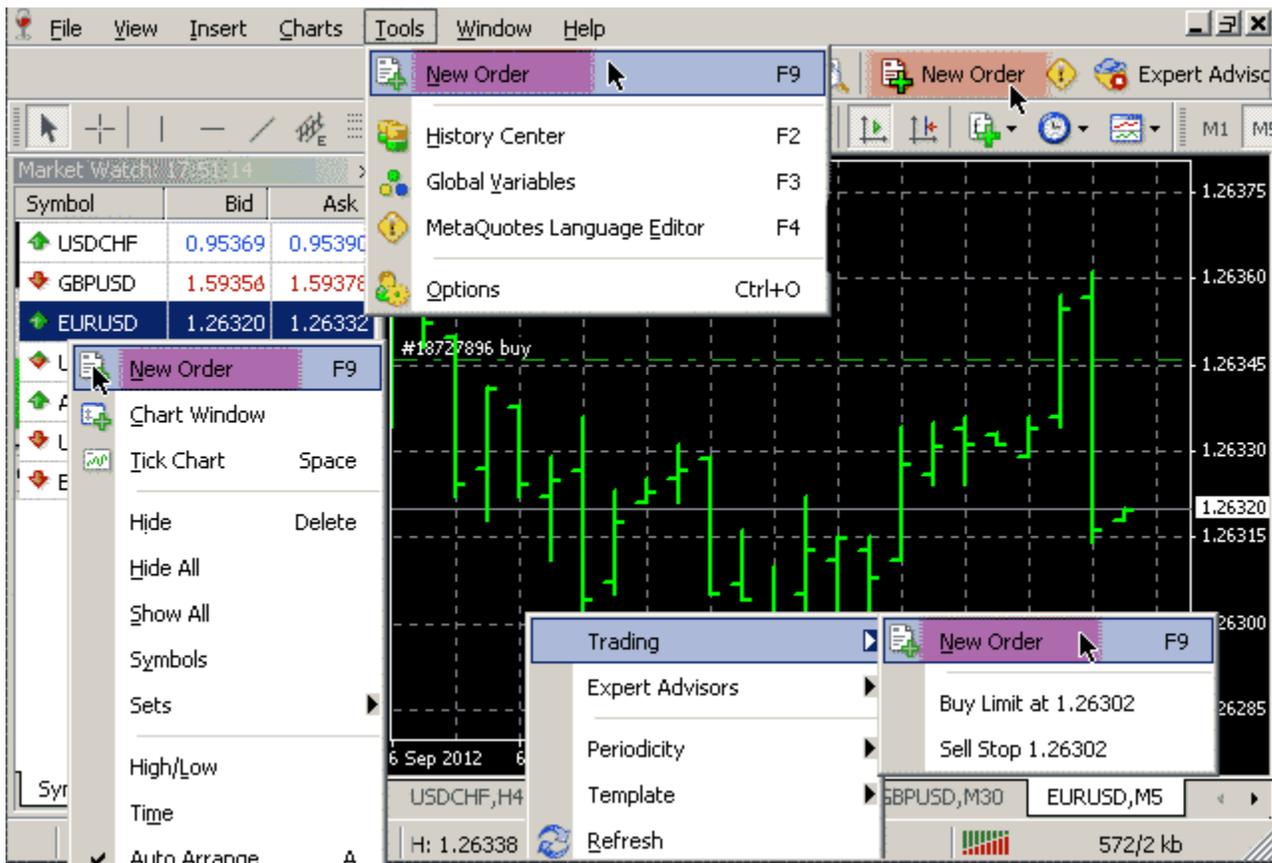
For **opening a New Chart**, *File>New Chart*, or right click on the desired symbol on the Market Watch window, and select *Chart Window*, as shown on the next image:



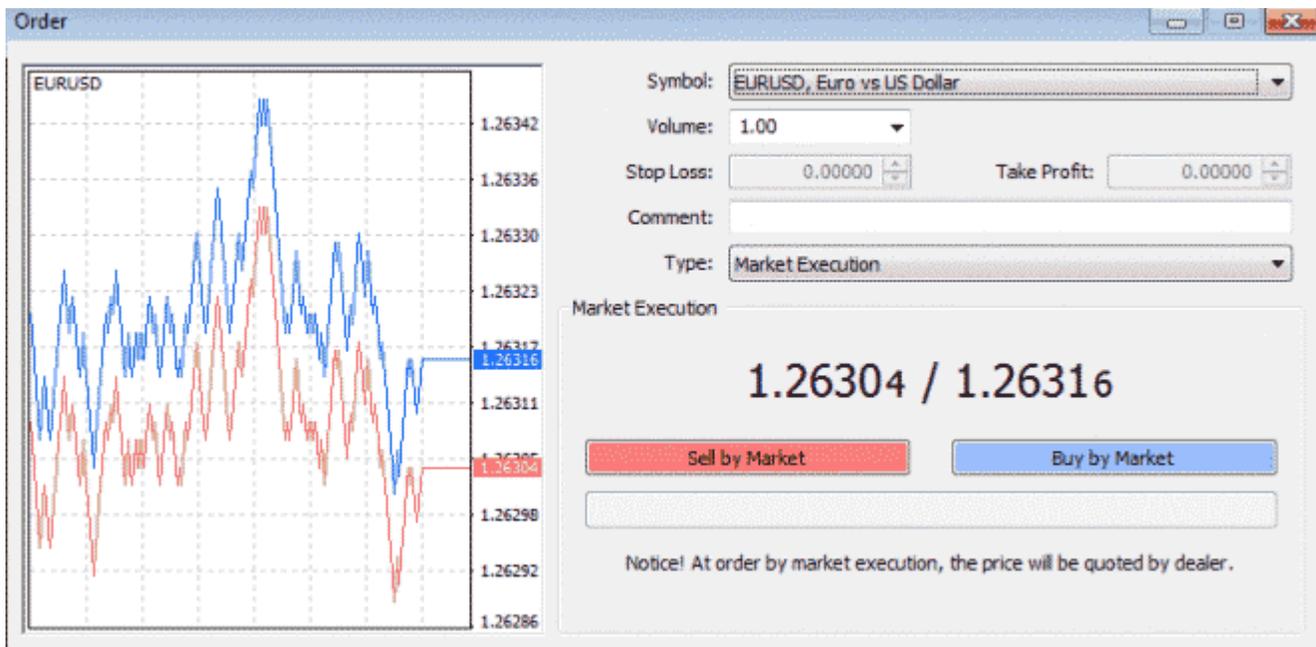
If you want **to see more symbols** on the MarketWatch than the default ones, having also the ability to open the chart for these other symbols, you have to right click on any currency on the Market Watch, and select the *symbol* option. There you could choose the symbols you want to follow between all those offered by your broker.

ORDERS MANAGEMENT

With MetaTrader we have the ability, not just to analyse charts, but also to send orders to our broker using the platform. **To create a new order** we could just click **F9**, or go to *Tools>New Order*, or press the *New Order* icon on the toolbars, or right click on the symbol in the Market Watch window, press the first option, *New Order*, or right click on the chart and select *trading>New Order*. So, five different ways to open the New Order dialogue window:



And the Order window opens:



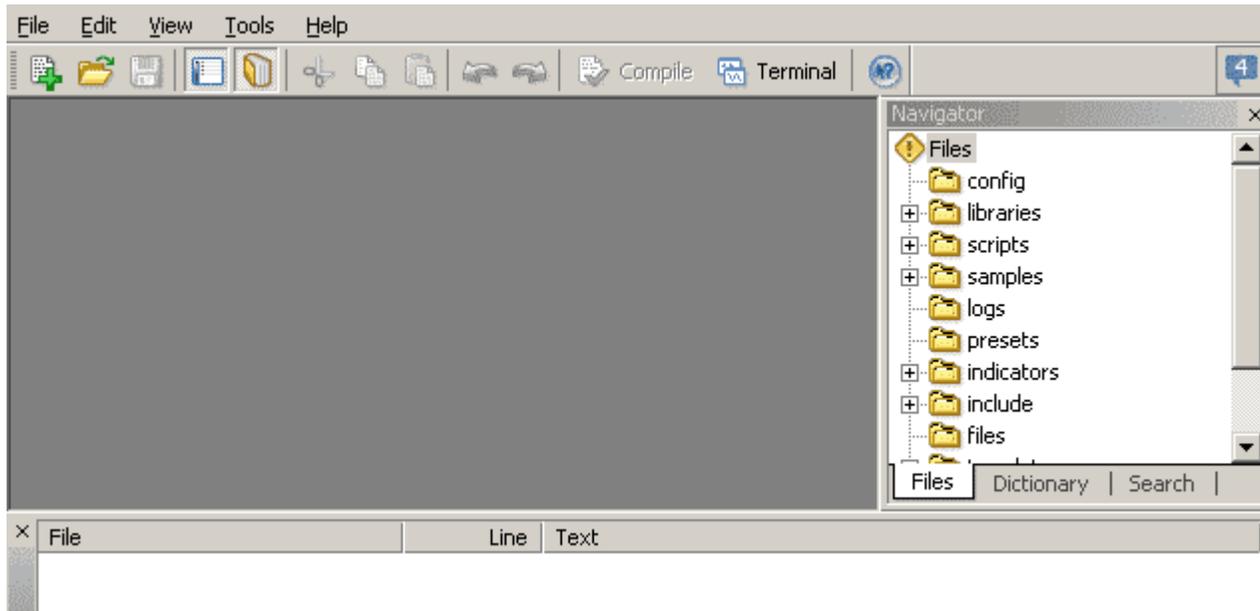
On this order window we could choose the currency to trade, the size of our trade (volume), and to send a market or a limit order. Once the position has been opened, you can follow the trade on the trade tab inside the terminal window. The best you could do is to practice the different orders and options on a demo account before going live.

MQL4

Although it goes beyond the scope of this article, as a MetaTrader user you should know that one of the software's greatest strengths is its programming language, **MQL4**. MQL5, a new version of the language that comes with the new

MetaTrader 5, although very similar, has some differences that make incompatibilities and the need to translate many lines of code to bridge these incompatibilities. This is one of the reasons that MT5 is not as widespread as its old version. Both languages are based on **C++**.

If we click on the option *Tools>MetaQuotes Language Editor*, or just press **F4**, the MetaEditor appears. This editor is specialised for the creation, editing and compilation of programs written in MQL4. Its interface is similar to the one of the main MetaTrader window, having at the right a navigator with the MQL4 programs and their code. For example, we could open from there the moving average indicator code, and hack it for our taste and needs. We could also create a new program from scratch through *File>New (Ctrl+n)*.



There are **3 types of programs**:

- **Expert Advisors (EA)**: Also known as automatic systems, are programs that execute on every tick to see whether a set of rules have been fulfilled. It could be tested, or used on the live market to send the orders directly by MetaTrader, if our broker allows this.
- **Scripts**: a set of automated steps which execute just once. We could, for example, use a script to adjust our stop loss and target, or to close our positions, just double clicking or dropping the script on the chart.
- **Indicators**: Are calculations that execute tick by tick, derive from the price, and are usually represented graphically, like moving averages, RSI, etc.

If you want to **expand** on this, you could take a look on some tutorials like the series of articles starting with <http://articles.mql4.com/404>, the CodersGuru tutorial that could be easily download from <http://www.forexfactory.com/showthread.php?t=6011> , and the official MQL4 book on <http://book.mql4.com/intro> . As I said before about the research of the best software, just be sure you don't get lost learning to program when you should be understanding how the price moves.

HOW TO ADD A NEW INDICATOR

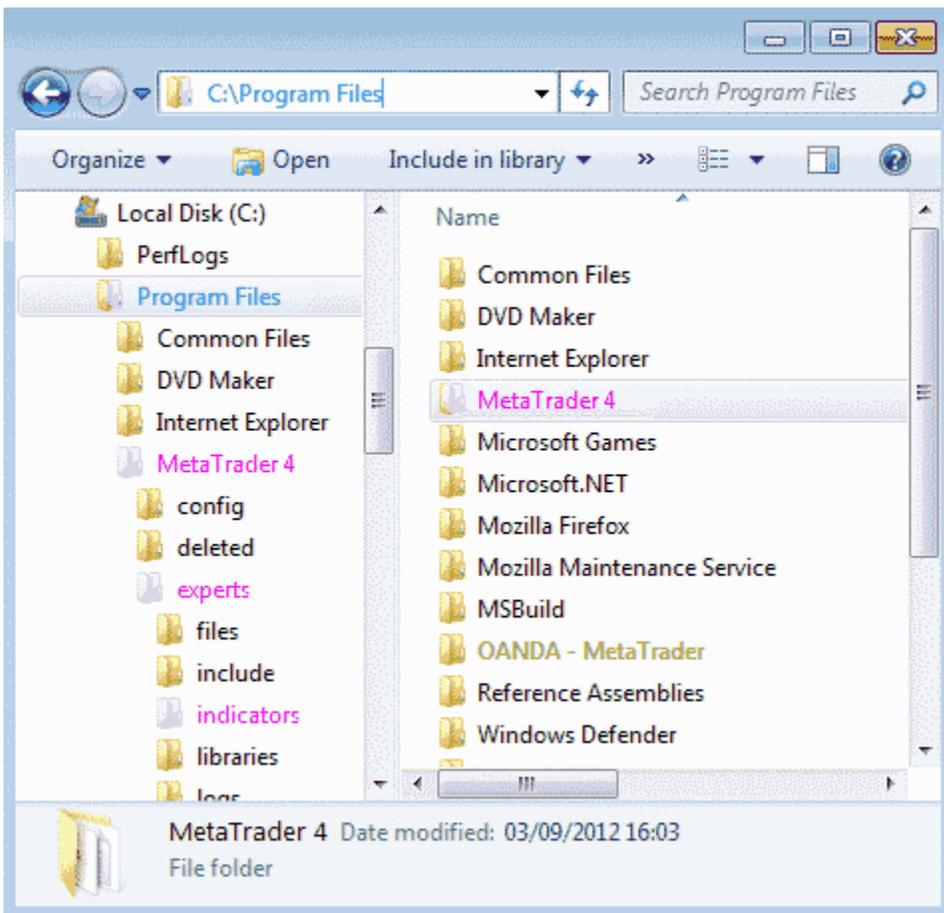
Soon you'll find some thread where a poster shares an indicator for MetaTrader. What are the **steps** to add it? It's very easy. Simply you have to copy the indicator into the *experts>indicators* folder inside your MT4 program's file folder, and then restart MetaTrader.

Then, **for adding** this indicator to the chart we double click the desired custom indicator in the Navigator window, or through the menu option *Insert>Indicators>Custom*.

I want to show it on a more detailed way through an example. Imagine that you are reading the [Support and resistance zigzag setups with Emene](#), and you want to install [the zigzag indicator](#) that Emene shares on the first post.

Once downloaded and unzipped, you'll have the ZigZagTF.mq4 file.

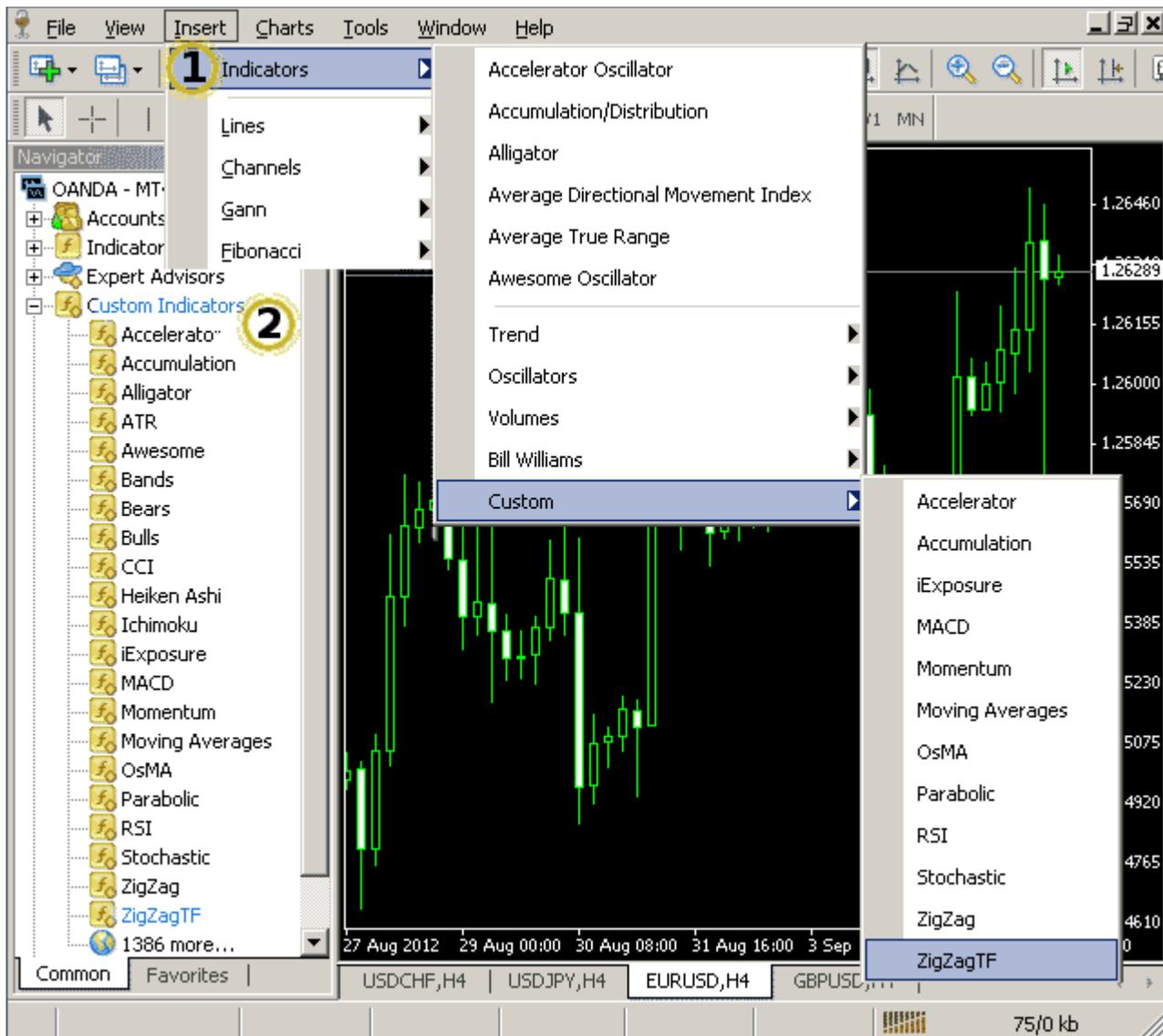
Now you have to copy this indicator to the metatrader *experts/indicators* folder. Do you remember I told you to keep in mind where your metatrader installation folder was. This is the reason. If you downloaded MT directly from the MetaQuotes page, then most probably the route is this one on windows: *C:\Program Files\MetaTrader 4\experts\indicators*, but if you download it from your broker, it should be something like *C:\Program Files\name of your broker - MetaTrader\experts\indicators*. In the next screenshot you could see that on the *C:\Program Files* folder, highlighted on blue, we have two different installations of MetaTrader, the MetaQuotes one called just *MetaTrader 4* (on pink), and the Oanda one, called *OANDA - MetaTrader* (on green). Inside the *MetaTrader 4* folder we could see on the tree view of the left the *experts>indicators* folder, highlighted also on pink. There is where we have to copy the ZigZagTF.mq4 indicator.



If you take a look in the indicators folder you'll see there are **.mq4** and **.ex4** files. The **.mq4** files are the source code of the indicators or Expert Advisors, while the **.ex4** are the **compiled** **.mq4** files. This means that the **.mq4** files are readable and can be modified by humans, but need to be translated into the software language to be readable by MetaTrader, and this translation is what means "to be compiled".

Now that we have the **.mq4** file in its indicator folder, we restart MetaTrader, and it will compile automatically our **.mq4** file creating the **.ex4** on the same folder, so MT can use it.

Already done. Now we just have to add it to our chart through one of the two ways of doing this, *Insert>indicators>Custom>ZigZagTF* or through the Navigator Window selecting *Custom indicators>ZigZagTF*.



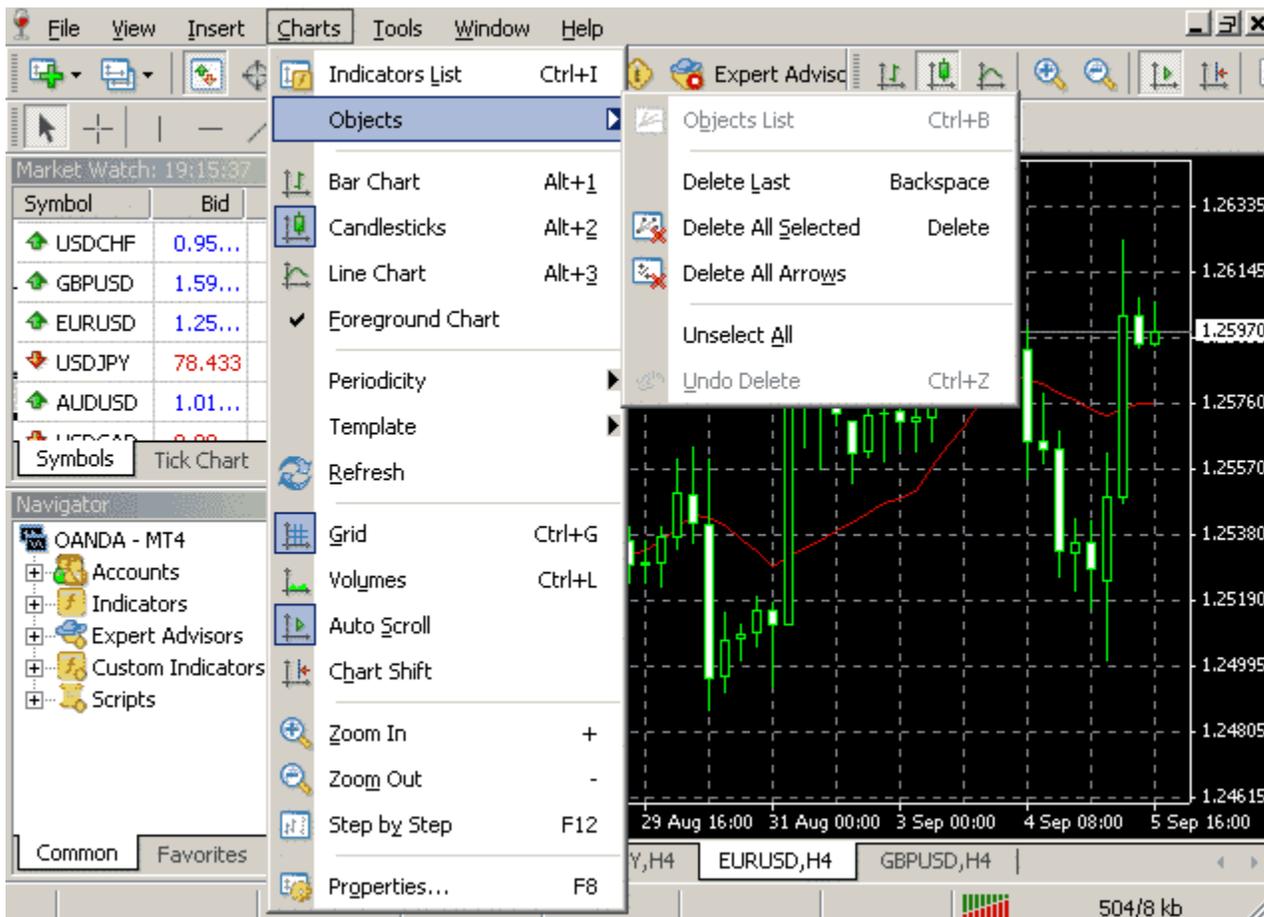
And here we have the results:



SHORTCUTS

I'm a big fan of shortcuts. Shortcuts could speed and sensibly facilitate the work, so when I learn a program, I try to **give preference the shortcuts** over the mouse functions.

Usually a good way to learn the shortcuts is to check what they are when we call some function on the options menu. For example, as we could see on the next chart, if we want to change between candlesticks and line chart, we see next to their option that its shortcuts are Alt+2 and Alt+3, so instead of losing time having to go everytime to options or to the icon in the toolbar, simply pressing Alt+2 and Alt+3 we alternate at the speed of light between candle and line charts.



The next is a **list** of some of the **shortcuts** I think could be most **useful**:

F1 = User Guide

Shift+F12/F12 = Move the chart one bar back/forward

Up or left arrow / Down or right arrow = Move the chart four bars back/forward

PageUp/PageDown = Move the chart one screen back/forward

Home/End = move to the start/end of the chart history

+/- = chart zoom in/out

Ctrl+F6 = Focus on the next window

F11 = Charts full screen mode

Alt + 1/2/3 = Change between bar, candle or line chart.

Ctrl+y = show/hide period separators

Backspace = Delete the latest draw

Ctrl+z = undo last object deletion

Ctrl/Shift+F5 = Change to the next/previous profile

Enter + instrument = opens on the current chart that instrument. This is a fancy feature. For example, you're on EURUSD, then press enter, then write USDCAD, and it changes to USDCAD. It's possible to change also the timeframe or the time or date.

Ctrl+n = Show/hide the navigator window

Ctrl+t = Show/hide the "Terminal" window

F8 = Properties window

F9 = New order window

Inside the User Guide (**F1**), on the *User Interface>Fast Navigation* section, you could find the complete shortcuts list.

FOREX BROKERS

THE GOOD AND THE BAD

There are so many different types of broker out there, but before you go deeply into their typical and technical specifications, the most significant consideration is if your money will be safe on deposit with them. **The first thing you have to check is if the broker is regulated**, and under **which jurisdiction** it operates.

A Regulated forex broker is under the rules of the regulator authority, meaning that in case something goes wrong you can complain, sue or file an appeal against your forex broker to the authority by civil law. The regulatory authorities protect forex traders against fraud, scam and illegal trading practices; check if the broker has had many disciplinary actions from the CFTC or National Futures Association or from another authority - it's a strong reason for caution.



Here's a list of the major authorities:

- [UK Financial Services Authority](#) (FSA)
- [US National Futures Association](#) (NFA)
- [US Commodity Futures Trading Commission](#) (CFTC)
- [Australian Securities and Investments Commission](#) (ASIC)
- [Swiss Federal Department of Finance](#) (FDF)
- [France Autorité de Contrôle Prudentiel](#) (ACP)
- [Canadian Investor Protection Fund](#) (CIPF)
- [International Financial Services Centre](#) (IFSC)
- [The Financial Futures Association of Japan](#) (FFAJ)
- [German Federal Financial Supervisory Authority](#) (BaFin)

At last, don't forget that just because a broker writes on his website that he is regulated and domiciled in a major country, it doesn't make it true, so check the website of the relevant financial authority to check if the broker is in their database.

Different jurisdictions mean different laws, and this is something you have to consider, because if some problem will pop up, you will have to deal with the laws of the country in which the broker is registered. So a very important consideration is about where the broker is situated. This means you will probably only want to deal with larger forex

brokers, with a clear history and a very good reputation, that are regulated, registered, and supervised by appropriate authorities in at least one major country; the more, the merrier.

Also, you have to be sure about how client funds are managed, whether they are segregated from company operating capital or not, and in which kind of account they are deposited, in an account at a large, big and well known bank or in some strange account into the Cayman Islands?

A lot of info to collect, but how? Well, while you can and must do your homework, researching on the internet, scanning forums and sites, gathering all the info you can, your primary resource is the broker itself. Could sound strange to you, but it's not. The web site of the broker has to contain all this information, and they must be listed in a clear and detailed way. Plus, don't forget that the broker's customer support have to be able to answer all these questions. If all the valuable info isn't available on the website of the broker, and the customer support isn't able to answer properly all your questions and doubts...well, it's not a good sign.

TYPE OF BROKERS

DEALING DESK

A dealing desk broker is a broker who employs dealers or software [the desk] that may or may not execute orders from retail traders. Dealing Desk means that someone or something - a software - executes your trades, so your order could be executed against the order of another retail client or against the broker itself that will open a contrary position for the same amount you have invested, and when disequilibrium exists within the internal order book, the broker hedges any exposure with their liquidity provider, a bank*. For that reason, because they control price and quotes making an artificial "little" market rather than sending the orders straight to the market, they are also called MARKET MAKERS.

So, traders do not see the real interbank market rates, but the quotes from the broker, and the broker could manipulate them in order to fill the "internal" market. That could sound scary, and there are a lot of "horror tales" about the manipulation [big spikes, stop hunting] made by the dealer desk; but the truth is that due the high and ferocious competition between the brokers, the rates are now very close to the interbank rates, and even if some manipulation does occur, the brokers have no interest to scare, and ultimately lose, their clients. A dealing desk broker makes money collecting the spreads, which are usually fixed.

**often brokers are just white labels from bank.*

NO DEALING DESK

No Dealing Desk forex brokers provide direct access to their liquidity providers quotes without passing the clients' orders through the dealing desk.

STRAIGHT THROUGH PROCESSING - STP -platforms execute the orders directly between the retail client and the liquidity provider. The more providers, the more liquidity in the system, the better the fills for the customer. Since STP brokers (as well as ECN) don't trade against their clients – that's why they are called No Dealing Desk; they just add small markups to the spread quote.

This is done by adding a pip, more or less, to the best bid and subtracting at the best ask of its liquidity providers. Practically, they offer the client the best quote – for them – available at the time from their liquidity provider. An STP broker could have one liquidity provider - generally speaking a bank - or more than one, offering limited liquidity as compared to an ECN forex broker. But there is a further difference inside the STP categories of brokers, regarding "how" the orders are executed.

A "traditional" STP broker will fill clients' orders through instant execution methods, meaning that the broker will act as counterpart to your orders and will hedge these immediately with his liquidity providers, practically your order will be

instantly filled by your broker and then the orders are sent immediately and automatically without the “desk” intervention to the liquidity providers; but that means that you can suffer of some re-quotes if your broker has difficulties filling orders at the price you have requested.

An STP broker with a DIRECT MARKET ACCESS - DMA - passes your order directly onto his own liquidity providers, and the orders are filled directly by liquidity providers, which guarantee that all orders will be filled at the best offered rate at the moment, which, however, might not be the exact bid/ask you clicked on, because some slippage could always happen with any type of broker, especially during news time.

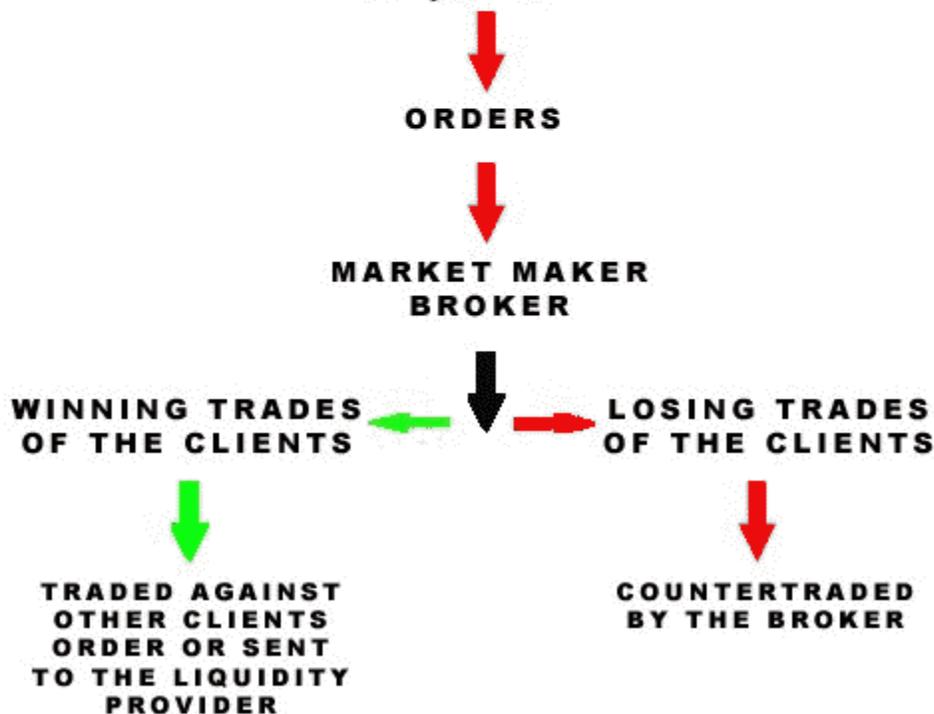
ELECTRONIC COMMUNICATIONS NETWORKS - ECN - platforms let customers' orders interact with other customers' orders. ECN Forex brokers provide a – generally big - marketplace where all its participants (banks, retail clients, market makers, funds) trade against each other.

It's not wrong to say that an ECN broker creates its own little “interbank” system. Participants interact inside the system against each other, and get the best offers for their trades available at that time. All trading orders are matched between counter parties – the other participants - in real time. ECNs also allow their clients to always see the "DEPTH OF THE MARKET", that is an order book including clients' placed bid and placed offer orders. A small trading fee – called commission - is always applied to the spread.

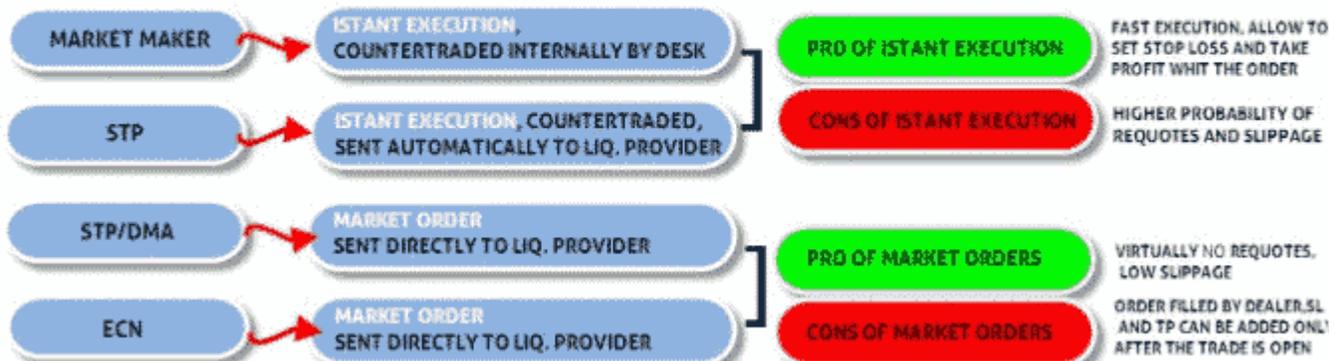
Please be careful, because while all ECN brokers offer a Straight Through Process, not all STPs offer Direct Access to the Market; furthermore, even ECN and STP with DMA process can countertrade your orders if the orders are too small** to be sent directly to the market, so be ever careful, don't trust what a broker claims to be, because there are no fixed rules, no laws about that; read the contract twice, and if you have some doubts ask the customer service, and do your homework.

***how small ? read the contract*

TYPE OF BROKER:	DEALING DESK (MARKET MAKER)	NO DEALING DESK (STP)	NO DEALING DESK (STP/DMA)	NO DEALING DESK (ECN)
<i>SPREADS:</i>	FIXED SPREADS	FIXED / VARIABLE SPREADS	FIXED / VARIABLE SPREADS	VARIABLE SPREADS + COMMISSION
<i>ORDERS:</i>	MATCHED INTERNALLY OR SENT TO LIQUIDITY PROVIDER	SENT DIRECTLY TO LIQUIDITY PROVIDERS	SENT DIRECTLY TO LIQUIDITY PROVIDERS	SENT DIRECTLY TO LIQUIDITY PROVIDERS
<i>QUOTES:</i>	ARTIFICIALLY OR FROM LIQUIDITY PROVIDER	FROM LIQUIDITY PROVIDERS	FROM LIQUIDITY PROVIDERS	FROM LIQUIDITY PROVIDERS + OTHER <u>PARTECIPANTS</u>
<i>EXECUTION:</i>	BY DESK	INSTANT EXECUTION	MARKET EXECUTION	MARKET EXECUTION
<i>DEPTH OF THE MARKET:</i>	NO	NO	SOME	YES



TYPE OF EXECUTION



DEMO ACCOUNT

The good news is that this statement is false. It's just a myth, since - due to the nature of the market - fx is an OTC (Over the Counter) market, there are no collections of data or reliable statistical research that can confirm this figure.

The bad news is that this statement, although statistically incorrect, is, in so far as it relates to retail traders, sadly truly founded Or at least the concept behind it is founded : a high percentage of traders, especially among beginners, constantly lose money.



Trading is a "highly risky business" and requires a serious understanding of financial markets and how they work, especially the currency markets. One is highly unlikely to achieve consistent long-term success in trading without first understanding the market.

The first objective of a trader should be to minimize the cost of their education. Until not long ago, an objective unlikely to be achieved.

To expand their knowledge, traders could count on very few things, like limited and often vague literature, or hopefully on the benevolence of a more experienced floor trader with the willingness to share their valuable experience - often at a high price.

Nowadays you can familiarize yourself with the market, for free, by paper trading.



What is paper trading?

Paper trading is a simulated trading process in which would-be investors can 'practice' investing without committing real money.

Today, thanks to the Internet and the computer era traders of all nations can share their own knowledge, or, as happens here on Read The Market thanks to our RTM raders, can teach newcomers through tools such as our [forum](#) or our [school](#). And the computer era also changed the way we do paper trading. While until not so long ago you really needed a pen and paper or complicated spreadsheets, today almost all brokers offer the possibility to open a demo account for free.

What is a demo account

A demo account is a simulated account that gives a trader the possibility of placing simulated orders on a fully functional "demo" platform with live quotes, using virtual money to trade.

The first step for a wannabe trader that intends to open a demo account is to evaluate the different platforms offered by the brokers, and the financial instruments, like currency, indices, shares, bonds, available on the platforms.

Benefits of using a demo account

- It gives you a chance to operate in the live markets with real quotes but with simulated money
- It allows you to learn to trade, or fine tune your methods, risk free
- It gives you the opportunity to familiarise yourself with the trading platform you're going to use

Disadvantages of using a demo account

- It may not give you a proper understanding of your own **trading psychology**. With no real risk or reward, you may not feel the same fear and greed, which are massive obstacles to properly trading a live account.
- With no real risk, a proper **money management** strategy may be hard to implement and follow strictly

However for an aspiring trader the choice of platform is almost always metatrader 4 [mt4], the most popular online forex trading platform on the market.

The golden rule



The career of an aspiring trader can be founded in the proper management of a demo account, and the only way to manage a demo account is to try to manage the virtual funds in the most realistic way possible: make it realistic.

Each transaction must be assessed and managed as if the account was real. Whenever you break this rule, whenever you deal with the risk in an unrealistic way you will end up hurting yourself and your future career as a trader.

The way you will manage a virtual account is an indication of how you will handle real funds in your live account. If you have the bad habit of wasting the virtual money, the likelihood is that you will do the same with real money in your future live account.

With the proper guidance and training many important skills can be developed using a demo account.

Paper trading can be a great way to ascertain how disciplined and prudent you are, and to test your skills as they grow. It's also even an effective way to practice controlling your emotions, which can greatly influence your trading decisions. So always remember the golden rule, make it realistic. This is a business, not a joke, and the markets are always hungry for fools.

The choice

But how to choose the broker practically ?

Remember the golden rule ? Make it real. Operate with the same caution you would use to open a real account with real funds. Would you entrust your money to the first broker who passes? Of course not. Do your homework. The internet is an amazing resource. Investigate, ask questions, find out about the reputation of your broker, if it's a market maker or an ECN , find out about regulations, find out whether their demo accounts treat orders just the same as their live accounts (often the demo account offers much less slippage, re quoting and platform freezes than the live account, giving you a false impression of their service). Hey, [there is a section in the forum for this](#) , if you have questions, do not hesitate.

As you will soon find the ideal broker does not exist; each has strengths and weaknesses, one of the many reasons why generally a professional trader uses multiple brokers. But for an aspiring trader, a broker with a solid reputation and a decent selection of financial instruments will be just fine. Also remember that many brokers offer demo accounts that expire generally after a 30 day trial, but there are few that offer unlimited accounts.

Open the simulated account

It's the easiest step, you need only an email address - you can use a temporary email service to avoid spam, some personal data, more or less accurate, and you're done. You just have to choose the currency in which to open the account - the most important ones are generally always available, [eur usd cad aud gbp] - and the total virtual amount to invest. Once you submit the required information you will receive in your mail box the link to download the trading platform, as well as information - username and password - useful for accessing to the platform.

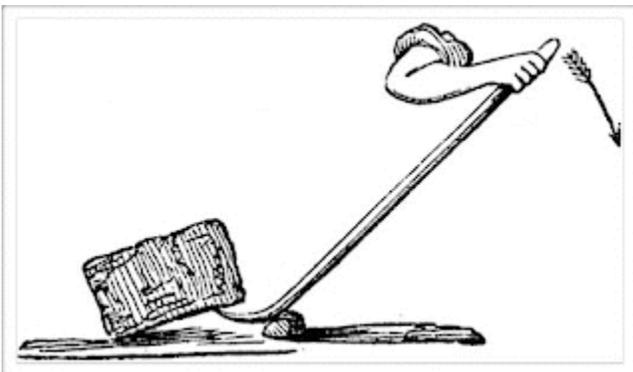
The amount to invest

Most brokers will provide you with a rather large amount of virtual money.

Amounts around \$ 100,000 or even more seem to be the norm for virtual money provided with demo accounts. Ask yourself why ... maybe because they want to give you the impression that this is an easy game, "come and give us your saving ... look how easy it is, just push some buttons, and you will become a millionaire ..."

Poor those who multiply easily a simulated account without having a proper education ... lambs ready for slaughter. Remember the golden rule. Realistically, how much you will invest in your first real account? 500, 5,000, 10,000 \$? So, open a demo account of 500, 5.000 [a good middle] or 10.000 virtual coin. No more.

The leverage



A highly leveraged account can quickly deplete your funds, especially if you don't have a very high % of winning trades. Play it safe, and choose a low leverage.

Next step



Well, you have just to [connect to our school and start studying](#) with the help of our RTM traders and advanced members. Good luck !

ORDER TYPES

WHAT ARE THE DIFFERENT TYPES OF ORDERS?

Market Order:

A Market Order is a manual order that allows you to Buy or Sell at current market price.

If you want to Buy you can just click on the Ask button and if you want to Sell you can click on the Bid button and your Market Order will be placed.

-Stop Loss Order:

A Stop Loss is in essence also a market order: it is an order used to close your trade. It will allow you to limit your losses. You can choose to set your Stop Loss Order at a pre-defined level. Knowing how much risk you are willing to take per trade, will help you calculate how big your Stop Loss can be.

For example, If you went long (bought) the EUR/USD at 1.2486 and you could only risk 20 pips, then you could put your Stop Loss Order at 1.2466. ($1.2486 - 20 \text{ pips} = 1.2466$).

On the other hand, let's say that you Sold the EUR/USD at 1.2486, having a maximum risk of 20 pips, will allow you to put your Stop Loss Order at 1.2506 ($1.2486 + 20 \text{ pips} = 1.2506$).

In other word, a Stop Loss Order is a tool that will help you manage your risk and Trading Capital.



PENDING ORDERS:

Pending orders, also referred to as PO, are automatic orders that will be executed when the price reaches a pre-defined price. There are 2 types of pending orders:

1) Limit Order:

A Limit Order is an automatic type of order that allows you to buy or sell at a pre-defined price. For example, if the price is at 1.2450 and you would like to sell the EUR/USD at 1.2500, you can place a Sell Limit Order at your wanted price and your trade will automatically be triggered if the price reaches 1.2500. On the other hand, if the price is at 1.2550 and you would like to buy the EUR/USD at 1.2500, you can place a Buy Limit Order at your wanted price.

However, you should take the spread into consideration when placing a PO. Let's take the previous example:

Let's say that you expect the price to reverse at 1.2500, in order to have your long trade triggered (buy order), you would have to subtract your spread from 1.2500. So if your broker charges you a 2 Pip Spread on the EUR/USD, you should then put your Pending Order at 1.2498.

2) Stop Entry Order:

A Stop Entry Order is also an automatic type of order. You can use a Stop Entry Order to buy above the current market price or sell below the current market price at a pre-defined level.

This is a type of order that can be used for a "Confirmation Trade". For example, the price has just started to trade up, it's currently at 1.2480 and you think that it will still go up if we pass 1.2485. In this case, you could place a Buy Stop Order at 1.2486 and vice versa for a Sell Stop Order. This is useful if you think that, for example, 1.30 is a strong resistance. If the price closes above this resistance, it can go higher. Then you can place your Buy Stop order above 1.30.

****Good to know:***

Limit and Stop Entry Orders can be cancelled and/or modified by the trader at any time, as long as the trade has not been triggered yet.

ADVANCED TYPE OF ORDERS:

-OCO Orders

An OCO (One Cancels the Other) order consists of 1 order with 2 different entries. An OCO order is an automatic order that can be set above and below the price. In other words, you could set a buy and sell order above and below the actual price, once either the buy or sell order gets triggered, the other entry will be automatically cancelled. Not every broker offers this type of order, so check with your broker if you would like to use it.

*See picture below for an example of an OCO Order:



FOREX TRADING POSITION SIZES

Calculating a Position and Stop Loss Size

Having a proper calculated position size and Stop Loss will help you build your account, but most importantly it will help you protect your Trading Capital.

If you can master the Art of Money Management, then you will have more chance of survival in this trading game, even if your trading system isn't one of the best.



Lots of new traders have no clue about what a proper stop and position size is; lots of them risk way to much money on each trade, leaving them with an empty account and lots of fear and disappointment.

Before making a decision on how big your stop and position size should be, you need to decide which % of your capital you are willing to risk per trade.

The percentage risk is different for each trader as not everyone's risk appetite is the same. However, it wouldn't be very wise to risk more than a maximum of 2% of your trading capital per trade, especially if you are new to trading. The less risk you take, the more room you have for losses. For example, if you use a 2% risk per trade, then you would be able to take

50 losses in a row before blowing your whole trading capital away.

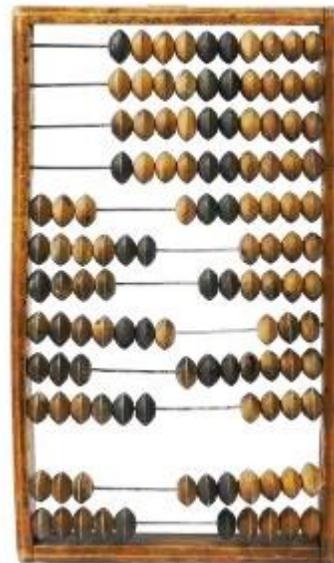
But if you take a 0.5% risk per trade, than you'll be able to take 200 losses in a row, in case things would go bad, offering you much more room for losses ... Of course, we hope that you won't take 200 losses in a row, we just want to show you the different possibilities.

Once you have chosen how much % you can stomach risking per trade, you can now calculate how many lots you are going to trade; your position size.

What is a position size?

A position size simply determines the amount of money you want to trade per pip. In forex, the pip value is calculated in "lots". A standart lot is 100,000 units , a mini lot is 10,000 units, a micro lot is 1,000 units and a nano lot is 100 units.

For example 1 standard lot which is 100,000 units, on the EURUSD is worth \$10. Every currency pair with US Dollar as the Quote Currency (XXX/USD), will have the same pip value. However every other instrument that is quoted with the US dollar first will be have to be calculated in a different way. This is why the pip value is different for many of the pairs we trade.



A simple way to calculate the pip value is to multiply 1 pip with the lot value.

Example:

EURUSD (1 pip) $0,0001 \times 100,000$ units = \$10 for 1 standart lot

$0,0001 \times 10,000$ units = \$ 1 for 1 mini lot

$0,0001 \times 1,000$ units = \$ 0,10 for 1 micro lot

$0,0001 \times 100$ units = \$ 0,01 for 1 nano lot

USDCHF (1 pip) $0,0001 \times 100,000$ units = SFr10 for 1 standart lot

$0,0001 \times 10,000$ units = SFr 1 for 1 mini lot

$0,0001 \times 1,000$ units = SFr 0,10 for 1 micro lot

$0,0001 \times 100$ units = SFr 0,01 for 1 nano lot

Commodities, CFD's, Futures, Indices etc will each have their own pip values also.

Attention!!!

The Pip Value per lot can differ greatly from instrument to instrument!

In order to calculate your position size, you first have to know how far from entry your stop loss is. For example, If you have a \$10,000 US account and you are only wanting to risk 1% of your trading capital, then you can risk \$100 US per trade. In other words, if you would trade the EURUSD with 1 standart lot (\$10 US) than you would allow price to go against you by maximum 10 pips . $10 \text{ pips} \times \$10 \text{ US} = \100 US .

Or you could trade with a mini lot (\$1 US) (on the EURUSD) this way, you could use a 100 pips Stop Loss. $100 \text{ pips} \times \$1 \text{ US} = \$100 \text{ US}$

What is a Stop Loss?



It is possible to limit your losses and protect your trading capital in forex by placing a "Stop Loss" order.

It's simply a pending order at a certain price, selling to cancel your buys, or buying to cancel your sells.

Choosing your stop loss allows you to calculate your position size, by dividing how much you're prepared to risk by how many pips your SL is from your entry.

Your technical analysis will tell you where your SL should be.

Let's now calculate a risk percentage, a position size and a Stop Loss... Let's say that your trading capital is \$10,000 US and that you are willing to risk 1% of it on every trade.

Based on 1% risk, (looking at the worst case scenario) you would be able to take 100 losses in a row.

Now, say your technical analysis tells you that you need a 25 pips Stop Loss for a particular trade, then you would calculate your position size as follows.

$1\% \text{ of } \$10,000 \text{ US} = \100 US

$\$100 \text{ divided by } 25 \text{ pips Stop Loss} = \4

So if you have a \$10,000 US account and you are willing to take a 25 pip Stop Loss, then your Pip Value should be \$4 US.

Knowing the pip value per lot on the pair, you can calculate how many lots you should trade

*Pip Value: The amount of money per pip movement

Let's say that you want to place a Buy Order on the EURUSD at 1.2500, if we take the above example than your Stop Loss would be at 1.2475.

$1.2500 - 25 \text{ pips Stop Loss} = 1.2475$

If your Stop Loss would have been hit, then you would have lost $25 \text{ pips} \times \$4 = \100 US

TECHNICAL ANALYSIS

1) TRENDS

Technical Analysis contains lots of different aspects and subjects . One of the Topics that we are going to cover here is "Trends".

What is a Trend?

To keep it simple, say that a trend is really nothing more than a "direction" in which a currency pair is trading.

Type of trends?

If you would ask the majority of the traders what they know about trends, they would probably tell you that there are 3 types of trends; an Uptrend, Downtrend and a Sideways trend. However, there are in reality only 2 types of trends.

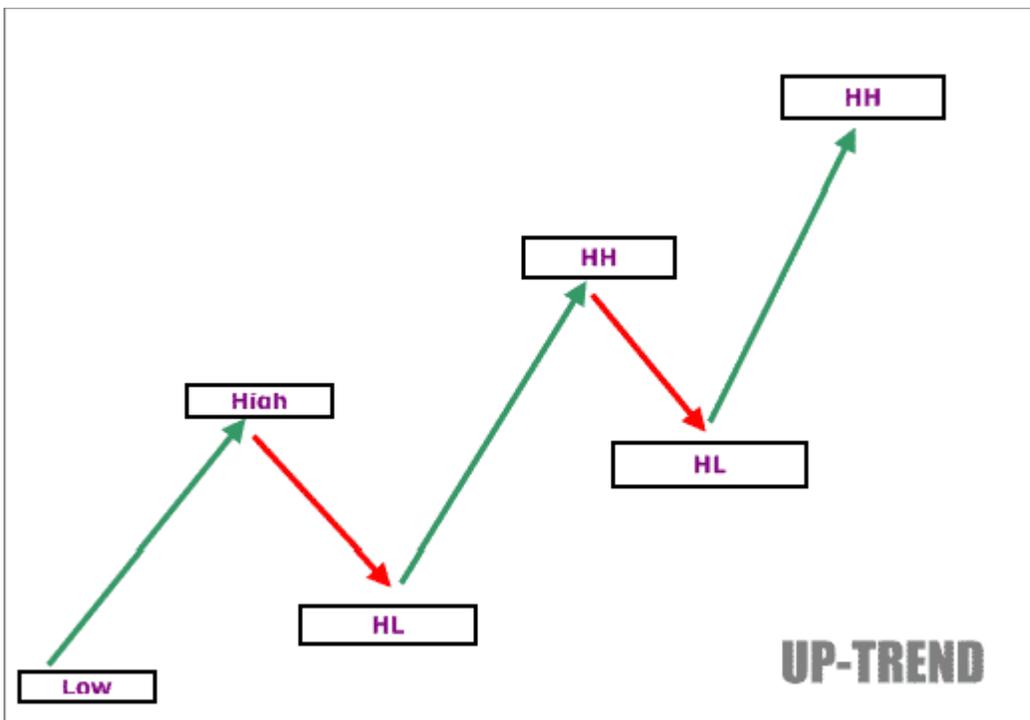
There is an Uptrend and a Downtrend. A "Sideways Trend" really doesn't exist, because even if price moves in a "sideways" range, price is still trading up and down....Also there are only 2 types of orders that can be placed, either a Buy order or a Sell order. There is no sideways order :-)

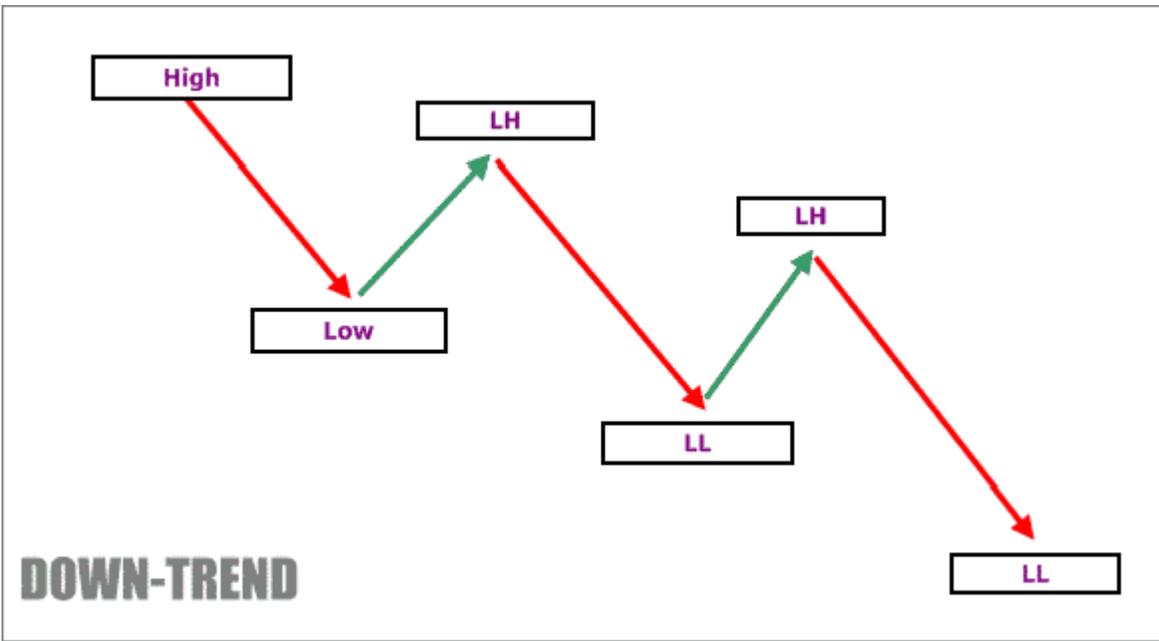


We can see that on the left side of the picture, price is trending down and that it is trending up on the right side of the picture. When price is trending in either a down or uptrend, it is not trading in a straight line.

If you observe how price tends to move, you will certainly recognize a “repetitive pattern”.

In a Downtrend, price will tend to move down while making Lower Highs (LH) and Lower Lows (LL) and in an Uptrend price will tend to move up while making a serie of Higher Highs (HH) and Higher Lows (HL). So in other words, price would have to make new highs or new lows in order to remain in an up or down trend.





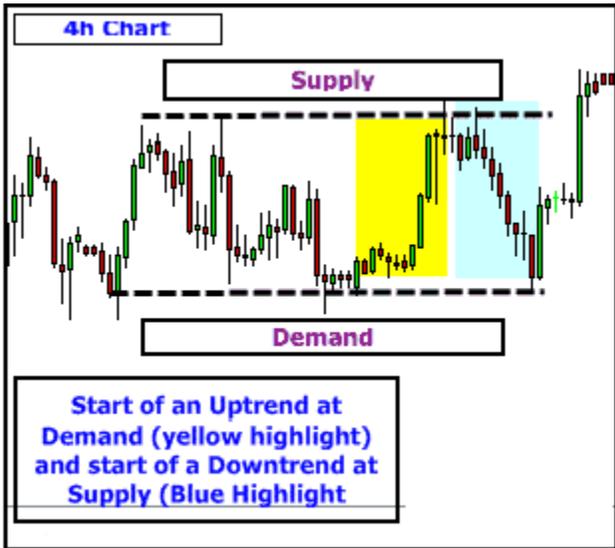
START OF NEW TRENDS

Since we firmly believe in the Supply and Demand dynamics, we expect price reversals or Trends continuations to take place at a significant Higher Timeframe Supply or Demand levels. See [Supply and Demand basics article here](#).

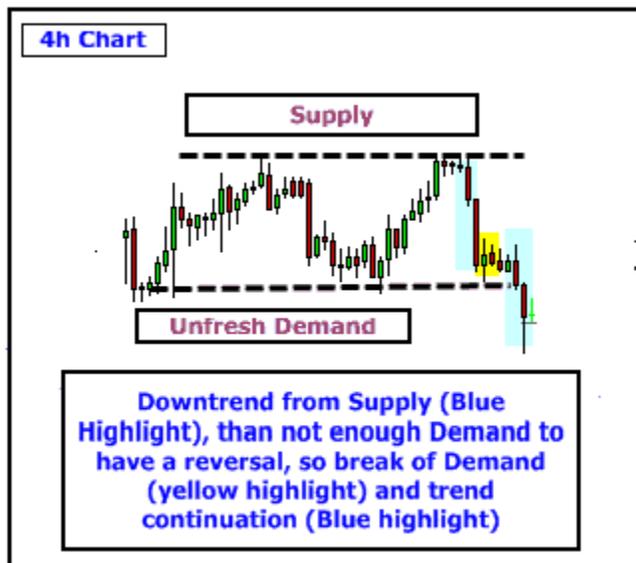
In other words we would expect to see a new Uptrend forming at a significant Demand Level and a new Downtrend at a significant Supply Level.

A Trend Continuation would most of the time occur once an Unfresh Supply or Demand zone would break. See RBR & DBD for more info about breaks of S/D levels.

The following chart is all about the Higher Timeframe (in this case 4h TF) trends at Supply or Demand. You can clearly see price trending up in yellow and down in blue, if you would zoom in, on a LTF, you would see price making HH's in the yellow box and LL's in the blue box.



And the chart below is a representation of an Unfresh Demand Level that got broken, allowing the downtrend to continue. Here again, looking at a LTF such as a 15 min and lower, you would clearly see Lower Highs and Lower Lows in the blue highlighted areas.



END OF A TREND

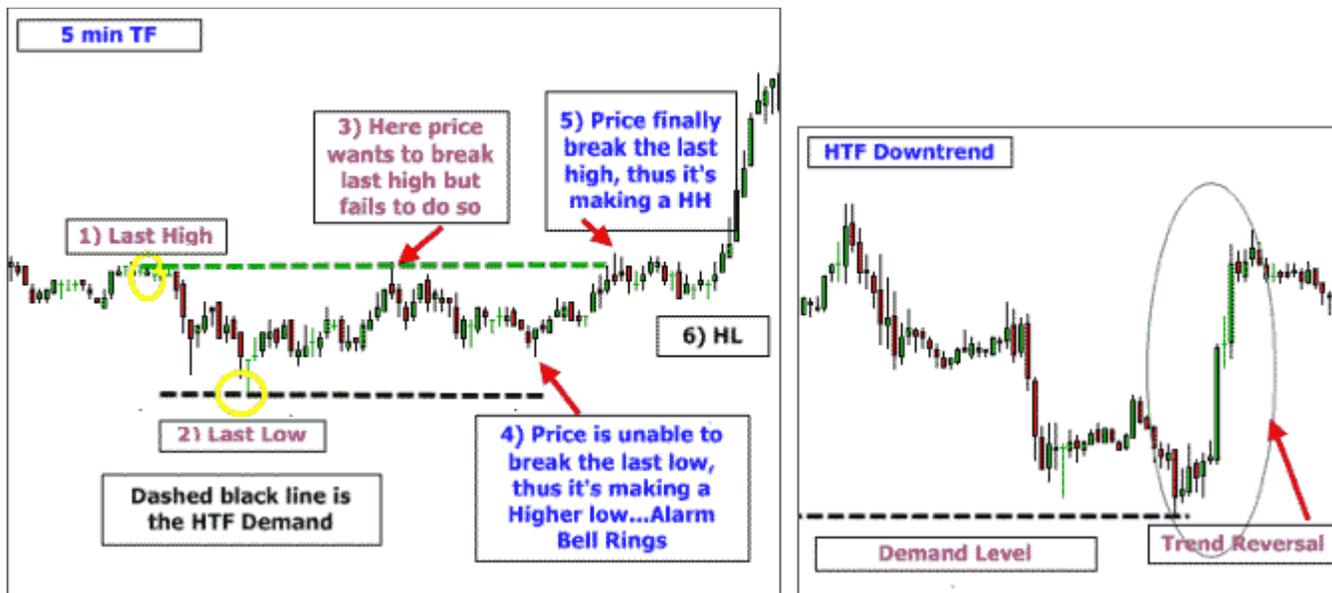
We would expect to see a trend ending when price arrives at a fresh Supply or Demand level. However if the Supply or Demand level isn't Fresh anymore, two things can happen.

- a trend reversal
- a trend continuation

There are clues that can help us to determine if a Supply or Demand Level will hold or not but this in itself is whole other topic See S/D or Price Compression.

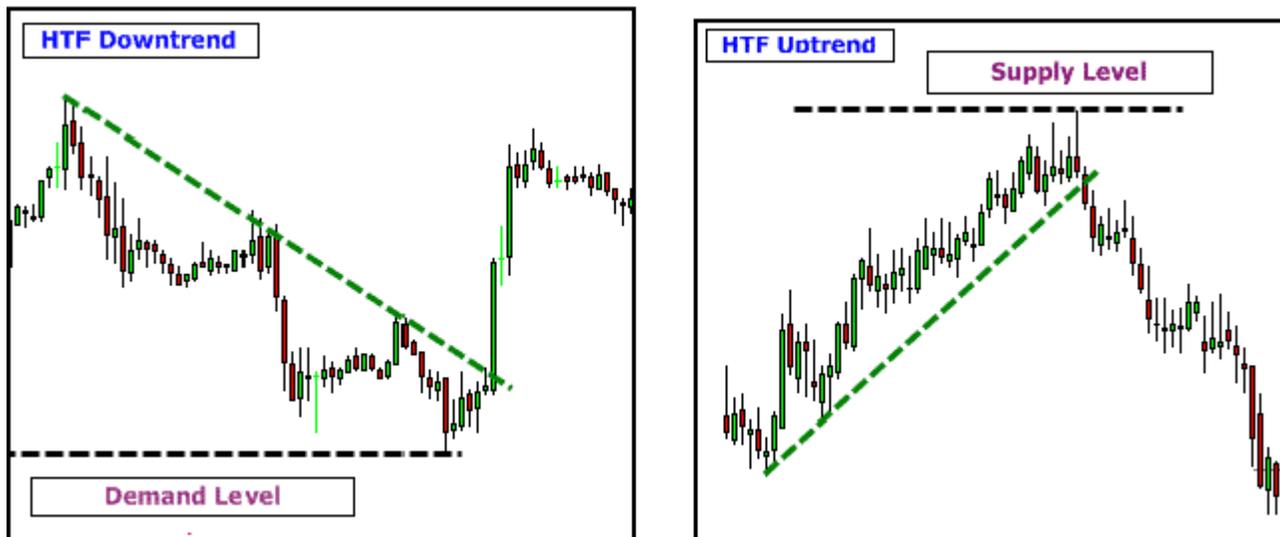
Looking at HH's/HL's and LH's/LL's can also help us in our Trend analysis. Let's take a Downtrend for an example. We would have been trading down from a significant Higher Timeframe Supply Level, while arriving at an opposite level, in this case a HTF Demand level, we would look at price movement, we would like to see price making a new high as well as HL's. Note that a Trend is relevant to the Timeframe we are looking at; while on a 4h Chart we may see an Uptrend, when we zoom in at a Lower Timeframe such we may see an opposite trend there.

See charts below for an explanation on a chart.



TRENDLINES

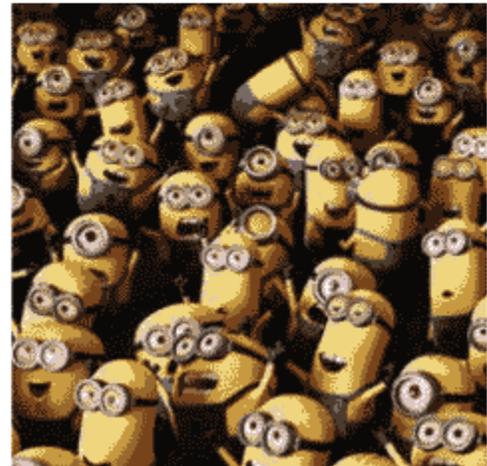
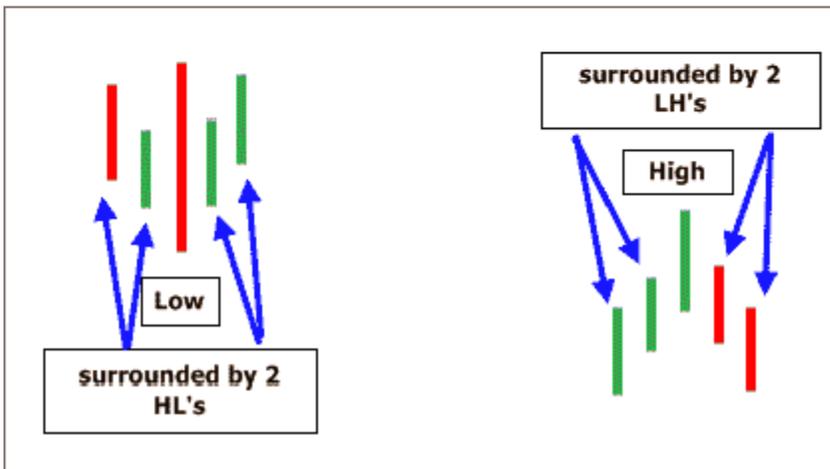
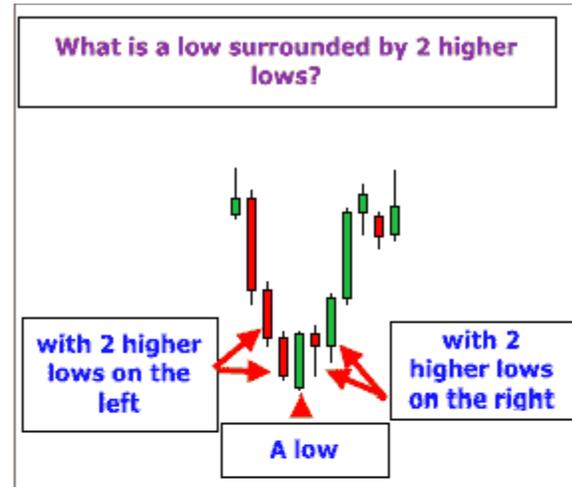
A trendline is a tool that is used to connect the Higher Lows (in an uptrend) or the lower highs (in a downtrend) . This technique will help visualize the current trend and can be used to add "Confluence" to a trade setup.



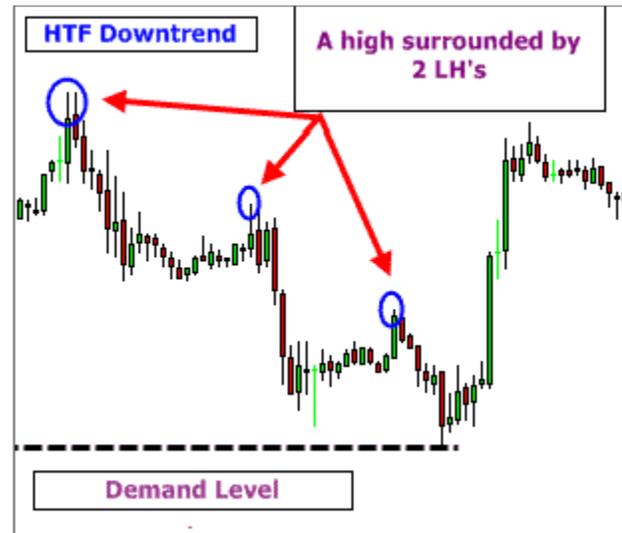
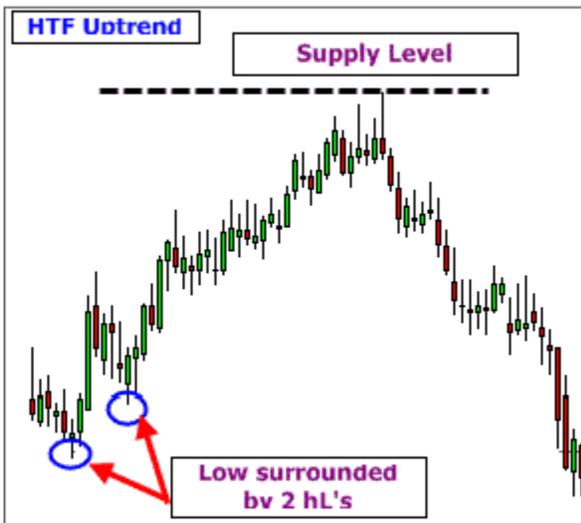
On the first chart, we can see that the trendline got broken once price bounced up from the HTF Demand Level and vice versa for the second chart and the Supply Level.

DRAWING TRENDLINES

When drawing trenlines, connect the obvious LH's or HL's. In a downtrend, look for a high followed by two lower highs. In a downtrend, I look for a low surrounded by two higher lows.



This way we'll be able to pick the quality Highs and lows from the other ones. Look at the charts below... the quality highs and lows are circled, the rest do not qualify since they do not meet the wanted criteria.



2) SUPPORT & RESISTANCE

Now that we talked about Trends, there is another important subject that we have to cover. In this second part of the Technical Analysis article, we will cover Support & Resistance.

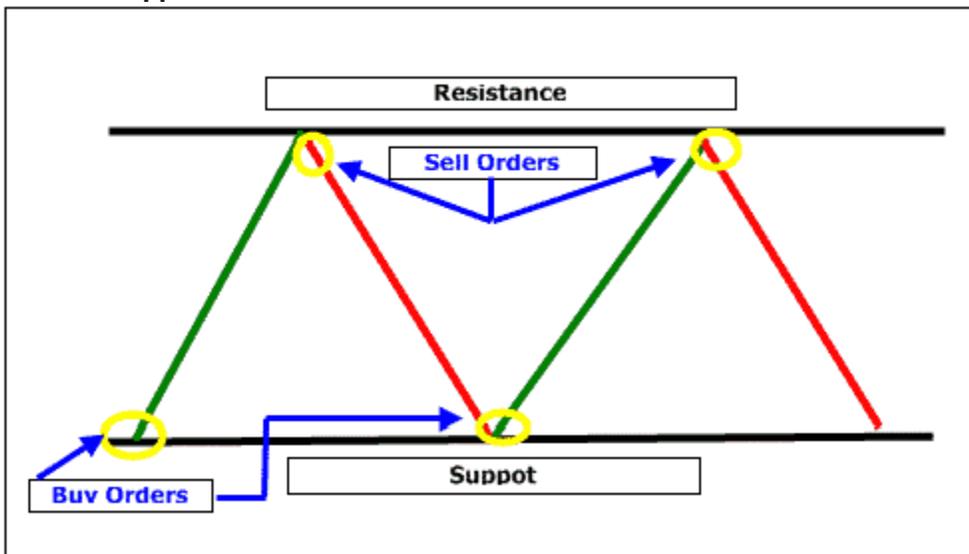
What is Support & Resistance?

A Support also referred as "floor" and Resistance also referred as "Ceiling" is nothing more than a decision level that first gets tested and then either "accepted" or rejected, thus "broken".

When Price bounces from a Support level, it does so because there was much more Buying Pressure than Selling Pressure at that particular point and vice versa for a Resistance level.

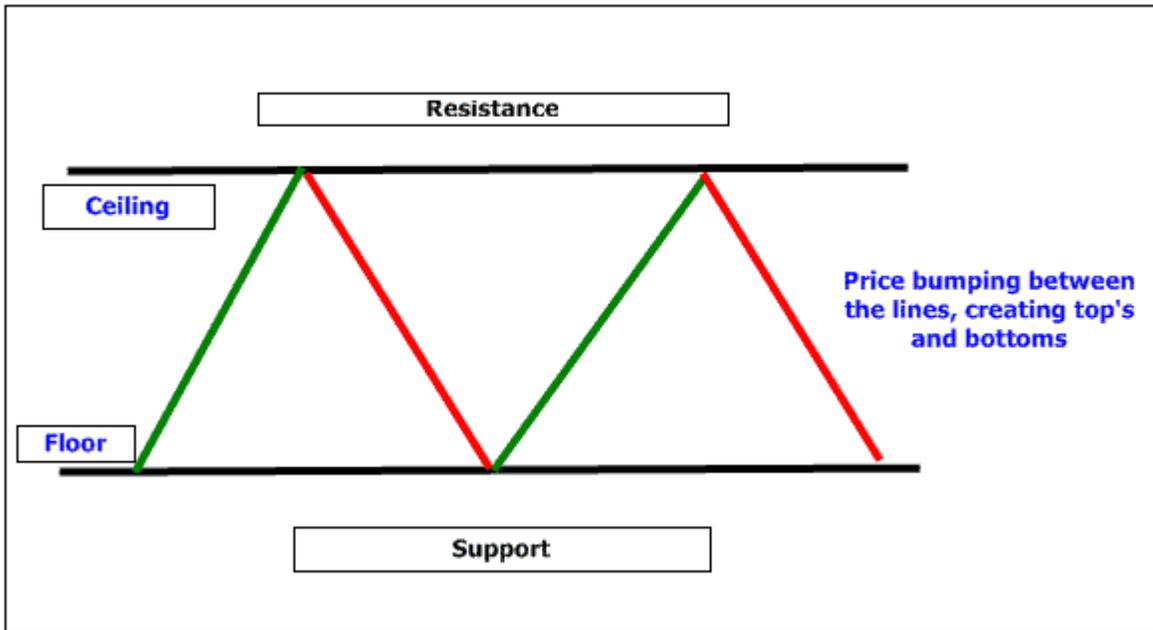
It's as simple as that...

What do Support & Resistance look like?



As you can see on the above picture, when price came to test the Resistance level, a decision was made. In this case the decision was that price was too high, forcing price to trade down until it found a Support level.

Let's look at the picture below. Look at the "pattern" in which price behaves between and at the lines, It is almost like a bouncing ball that is bouncing from the floor to the ceiling...



Support and Resistance breakout

If you search for Support and Resistance on the internet, you will probably find that lots of sources/traders think that the more a Support or Resistance level gets tested, the better...

Obviously, this doesn't make sense at all, because every time price comes to test an S/R level, it consumes the Sell/Buy orders at every touch/retest. So sooner or later all the orders will get filled and a breakout will have to take place.

When a breakout will happen, Support will often become Resistance/ Resistance will become Support.



When we went over the Trends topic, you learned that in order to have an uptrend, price had to keep on making Higher Highs and Higher Lows and Lower Highs and Lower Lows for a downtrend, Now you will understand that the highs in an uptrend, and the lows in a downtrend, will have to get broken for the trend to continue it's direction.

When looking for key turning points and swing highs/lows, you'll see that when drawing them, other points are going to stop/reverse there too. This is what we want to find



This is the same chart, same lines but I've change it to a candle chart... Do you see something interesting?



Look at how the lines holds , then get broken and get retested again

Sometimes you will see price arriving at a support or resistance level and trying to break the line, trading above the resistance or below the support and than quickly pulling back and closing under the resistance line or above a support line. This is what is called a "false breakout" , or fakeout. A fakeout happens for different reasons. One of the reasons is that price is looking for liquidity (a stop loss hunt). We are not able to know how many touches a support or resistance can accept, we can only know that it often becomes the opposite once it is clearly broken.

Extra Comments:

-When we get a False Breakout at a support or resistance level, while it's breaking out, it will very often react to a previous decision point.

-A support/resistance area is not totally the same as a Supply or Demand level.

A supply or demand level is an area where the real orders are placed while a support or resistance area is where we can spot the retests of the fresh supply or demand levels. However, we believe that every historical price lines such as Support & Resistance are based on a historical Supply or Demand level.

-Support and Resistance areas can be spotted on any chart and on any timeframe. However, the Higher Timeframes supply and demand zones are much stronger than the Lower Timeframe ones.

LEARN BY ASKING, AND BY TEACHING

These questions were the greatest gifts I ever got in better learning to trade. I opened my charts to look at the PA in question, and studied it to try and give as clear and concise an explanation of events as I could.

In so many cases I wasn't in a position to answer the queries, as the PA was still new to me. After all, I had only been trading for about a year, so how was I to know it all? But, determined to give the correct answer, I studied the scenario until it made sense to me, and then looked back through history to find as many similar setups as I could, just to lend credence to my answers. I certainly didn't want to publish answers which scrutiny would belie, so I had to be very sure of all I posted.

I've gotta tell you, I learned so much more this way than by simply answering my own queries at my own pace.

We've published so much of how the market works, that I feel a little sorry for those who could benefit from learning the way I did.

So now, for the greater good, I beg all traders, new and old, to find seeming anomalies on the charts, PA they don't understand or that they feel many wouldn't, and ask why it happened, and I ask everyone to try and answer as best they can.

Believe me, it'll be good for everybody!

READING THE MARKET

Here's what we look for on the charts:

General: HTF. Know where price is coming from and going to, and the PA past and present in all the TFs, from the Monthly down.

Specific: At the zones you want to trade, look to

Past. study the zone in all TFs, down to M1
ask yourself

Where were the decisions made? Clean S/D? Mark these lines. No clean S/D? – compressed zone

Did price really shoot away from the zone, or did it cp away?

Did the zone itself react at the right place? Look beyond the zone further into the past. See what it reacted to. Was there a better S/D nearby that price wants to visit? This explains many fakeouts.

Present.

Approach.

How is price returning to the zone?

Where's the nearest flag in the TF you want to trade? This is your tg1 in this TF. Flags in the LTFs? What does PA tell you?

Has price tested the last flag on approach? (good sign)

Has price compressed into the zone in this TF or LTFs? (good sign)

Is there big news on the way? Has there just been big news?

Reaction

In LTF, does price react violently to the first decision point? Does it quickly engulf the nearest S/D? (good sign)

Does price simply CP away? Maybe it wants to go to the next decision point

If the first decision point breaks, watch the signs on approach to the next, and, of course, reaction.

Chew this over for now. Apply it to your chart history. Apply it to as many failed setups as successful ones. Millions of them if possible! Capture and file them all. This will help make it instinctive

ORDER FLOW

When we look at the market watch window in our trading platform we'll see each instrument's symbols and next to it two different prices, one is bid and another is ask or offer. These prices are offered to us through an online broker who is not just a broker but also a dealer.

"Dealers and brokers help people trade. Dealers trade with their clients when their clients want to trade. The prices at which a dealer will buy and sell are the dealer's bid and ask prices. After they trade with their clients, dealers then try to trade out at a profit by selling what they have bought or by buying back what they have sold. In effect, clients pay dealers to take their trading problems. The dealers then try to solve them at a profit. Dealers profit by buying low and selling high. Successful dealers must be excellent traders.

Brokers are agents who arrange trades for their clients. They help their clients find traders who are willing to trade with them. They profit by charging commissions."

Dealers are market makers and also known as market specialists, so they play a big role as a market participant beside other pro money, understand how they play and you'll play with them. Now we understand that online brokers act as brokers and dealers.

Back to the market watch window, the ask/offer shows the lowest offer price which the market is willing to sell at and for you to buy, the bid shows the highest bid price which the market is willing to buy at and for you to sell.

As you know there are two types of orders “market orders” and “limit orders”, in the image below is an example of an order book, aka; DOM, Price Ladder, Level II. Bear in mind this is only for explanation purposes; in the currency and metals market there is no depth of market, it only applies to centralized markets such as futures, equities and commodities. Of course banks and dealers have their own order books but it only show their clients’ orders. Back to the image, the offers column for sell limit orders, bids column for buy limit orders and in middle is the price. I’ve taken eur/usd prices as an example, the orders are standard lots/contracts (i.e. 200K = 2 lots and 1M = 10 lots), the two prices highlighted in yellow represent the Bid/Ask prices which we see on our market watch (spread in this example is unrealistic and only to make it easier).

Bids	Price	Offers
	1.3050	1M
	1.3040	100K
	1.3030	
	1.3020	500K
	1.3010	200K
400K	1.3000	
	1.2990	
200K	1.2980	
300K	1.2970	
	1.2960	
500K	1.2950	

Anyone entering the market with market orders will be buying at 1.3010 and selling at 1.300. Now let’s say you place a buy market orders of 500K (5 lots) what will happen?! Your orders will be executed at the lowest offer consuming the 200K at 1.3010 and a 300K out of 500K at 1.3020 and this price will be the new lowest offer with 200K limit orders, so as offers were consumed price moved up to 1.3020

Another scenario; you are placing a sell market orders of 1 million (10 lots) what is the outcome?! Your orders will be executed at the highest bid consuming the 400K at 1.3000, the 200K at 1.2980, the 300K at 1.2970 and a 100K out of 500K at 1.2950 and this will be the new highest bid with 400K limit orders, so as bids were consumed price moved down to 1.2950

This is how price moves up or down by consuming orders, and bigger orders generate buying/selling pressure (momentum) pushing price in its direction consuming smaller orders until it stops (slows down /stalls) at a new price where there are opposite bigger orders placed.

One last thing, the stop loss pending orders are considered as limit orders and when it’s executed it adds pressure in the opposite direction.

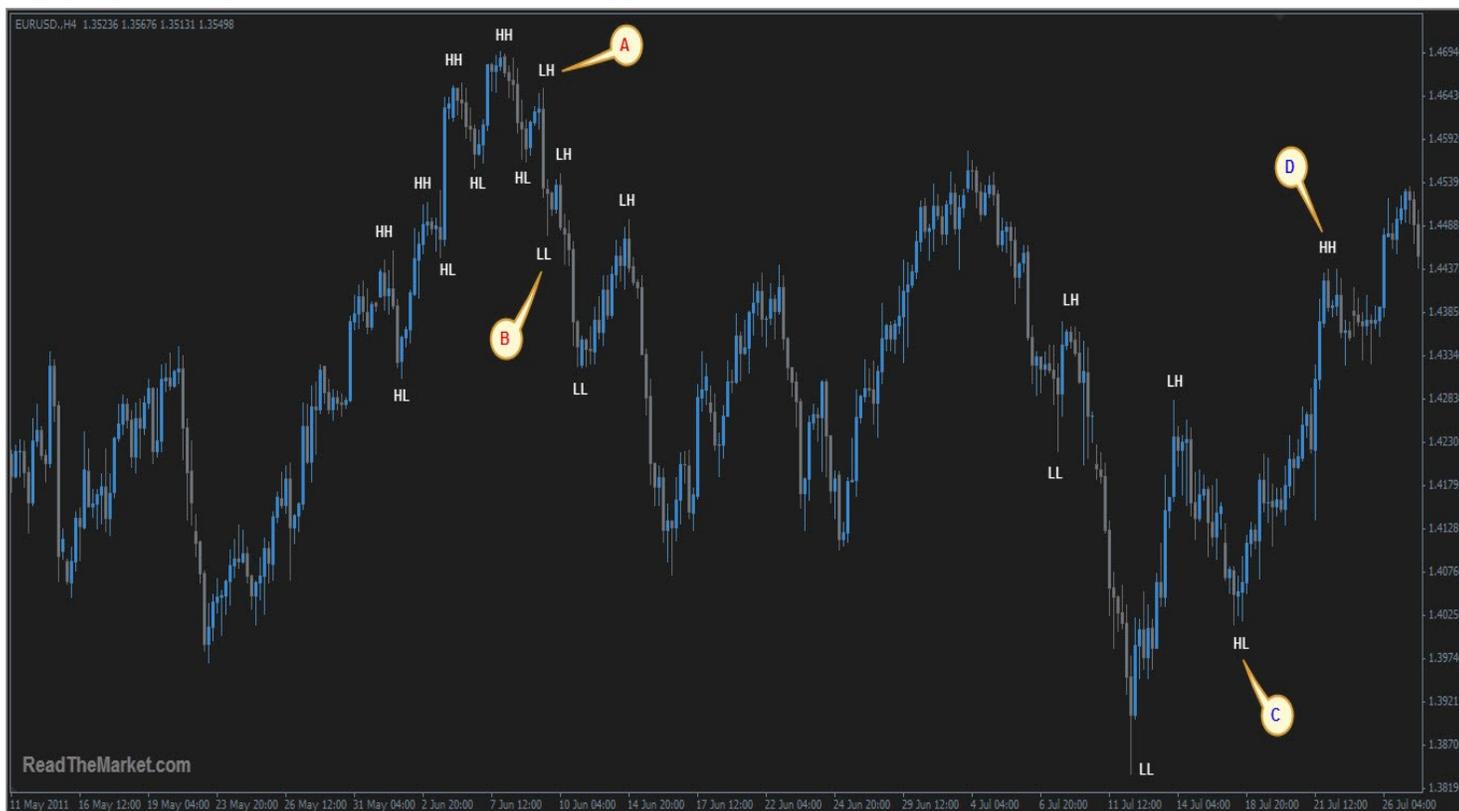
TREND DIRECTION / HIGHS AND LOWS

The Highs and Lows or Peaks and Valleys are the core of technical analysis. To draw an uptrend line you'll need to locate rising valleys or higher lows to draw the trend line below, and to draw a down trend line you'll need to locate falling peaks or lower highs to draw the trend line above (please refer to [Technical Analysis](#) and [Trendlines](#) in Confluence for more). However, there is a big difference between the Trend Direction and a Trend Line, a confusion that most of new traders suffer from.

So long as price keeps creating Higher Highs (HH) and Higher Lows (HL) then it's trending up, and when it keeps creating Lower Lows (LL) and Lower Highs (LH) then it's trending down. So when does the price change direction from uptrend to down trend and vice versa?

In the image below, on the left side we can see price has changed direction from an upward movement to down ward movement and this could be identified in four stages, starting with the last created HH, followed by a HL then creation of a new LH and this is a key stage [A] and finally a LL [B] and this confirms a change in direction. Notice the new LH has formed the right shoulder of a Head & Shoulders pattern.

On the right side of the chart price has changed direction from a down ward movement to upward movement and it happened in four stages as well, starting with last created LL, followed by a LH then a creation of a new HL and this is a key stage [C] and finally a HH [D] and this confirms a change in direction.

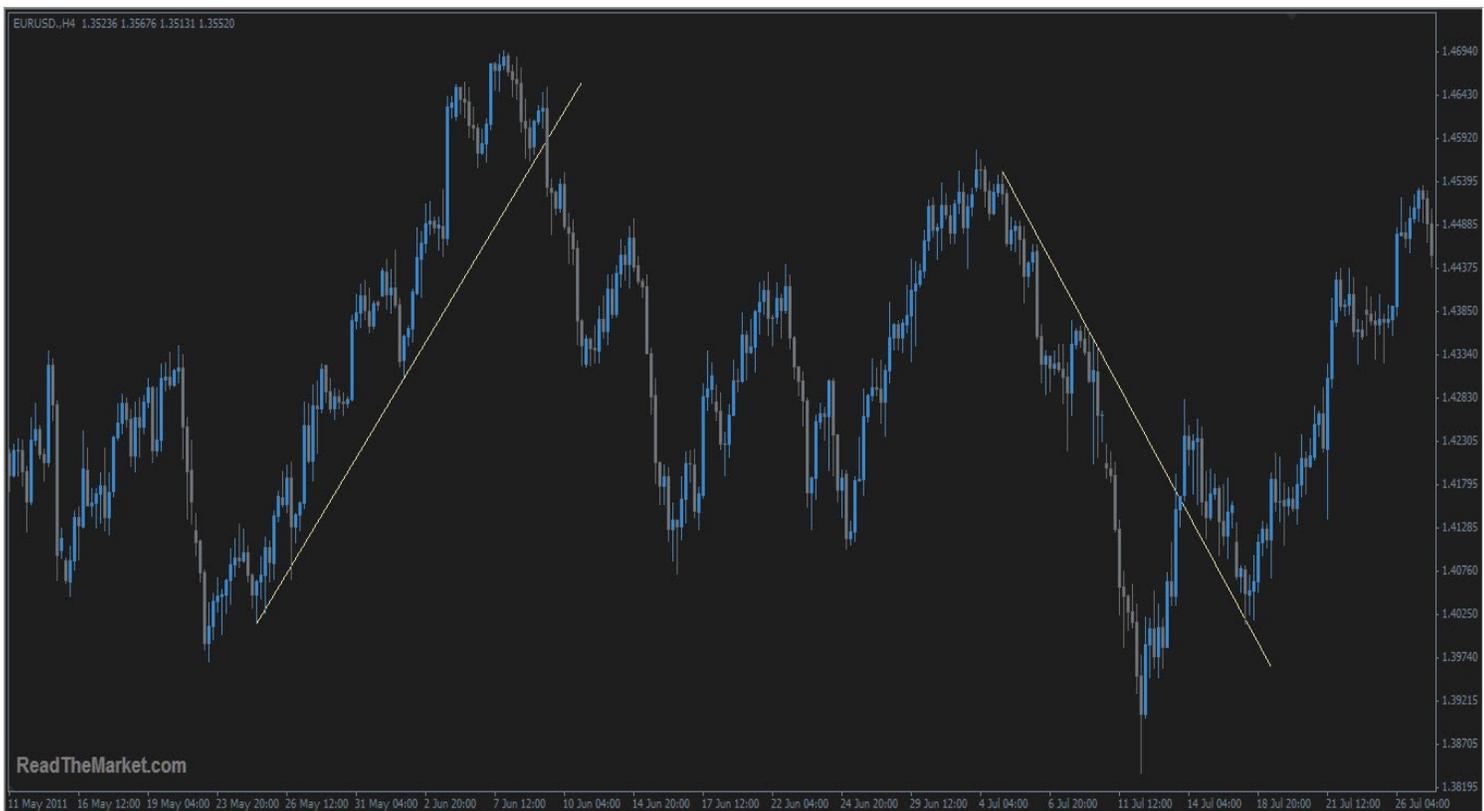


Conclusion:

- A change from an uptrend to down trend happens in 4 steps (**HH** > **HL** > **LH** > **LL**).
- A change from a down trend to an uptrend happens in 4 steps (**LL** > **LH** > **HL** > **HH**).

Now on the same chart we've drawn the trend lines (**TL**) to observe the breakouts. On the left side we have an up **TL** which price has broken right after the new **LH** then dropped for a long distance.

On the right side we have a down **TL** which price has broken after the last **LL**, failed to go higher and returned to retest it, creating the new **HL** then rallied up.



Conclusion:

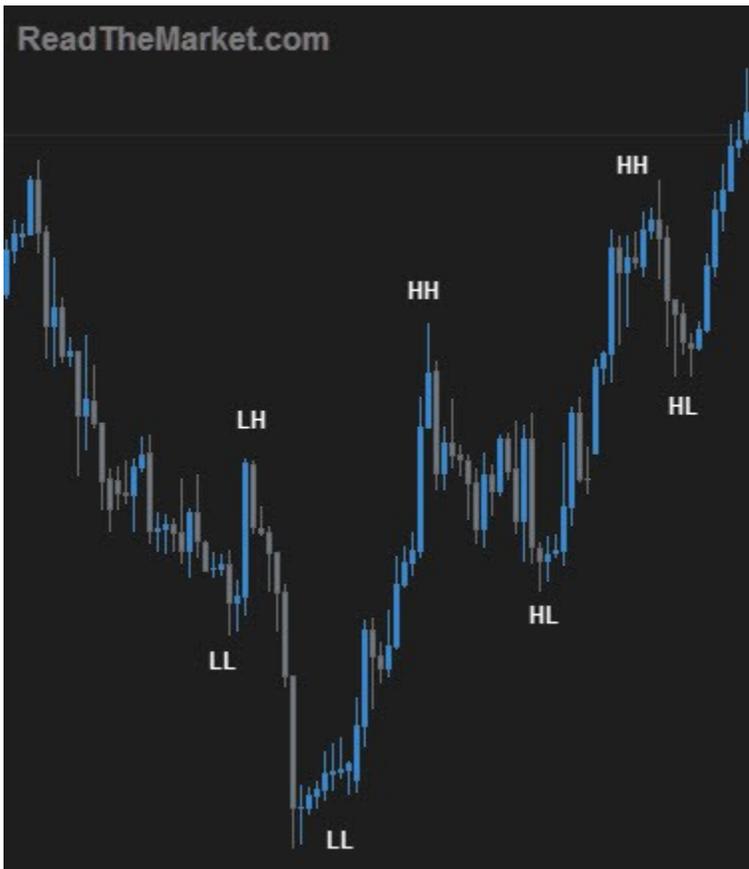
- In an uptrend a break of **TL** after a **LH** is most probably followed by a drop in price where a break of **TL** after a **HH** requires a retest of broken **TL** and creation of a **LH**.
- In a down trend a break of **TL** after a **HL** is most probably followed by a rally where a break of **TL** after a **LL** requires a retest of broken **TL** and creation of a **HL**.

There is a different order of stages for the change of direction with an earlier key stage, and the complete stages create a pattern that is known as Quasimodo (QM).

In this image price has changed direction from an upward movement to downward movement in four stages, starting with the last created **HL** followed by a **HH**, then creation of a new **LL** and this is the key stage, followed by a new **LH** and this confirms a change in direction.



In this image price has changed direction from a downward movement to an upward movement in four stages, starting with the last created **LH** followed by a **LL**, then creation of a new **HH** and this is the key stage, followed by a new **HL** and this confirms a change in direction.



Conclusion:

- A change from an uptrend to down trend in a QM happens in 4 steps (**HL** > **HH** > **LL** > **LH**).
- A change from a down trend to an uptrend in a QM happens in 4 steps (**LH** > **LL** > **HH** > **HL**).

One last note; please bear in mind that identifying peaks a valleys could vary from a trader to another but if you face any confusion then its recommended to change your candle or bar chart to line chart where you can easily identify the peaks and valleys.

SUPPLY AND DEMAND BY MEL

What is a Supply/Demand trading?

K.I.S.S.

Every possible market, whether it is a financial market or not, is being moved by the ongoing supply and demand that is present in this particular market. Supply (sellers) represents the quantity of products that is available in the market and Demand (buyers) represents the quantity of products that is wanted in the market. When there is more demand than supply, the price of any product is going to rise (demand exceeds supply) and when there is more supply than demand (supply exceeds demand), the price of the product is going to drop.

Selling at Supply or Buying at Demand offers you the best price possible. So why would you want to pay more for a product, service or currency if you can get it at a better and cheaper price?

The Edge

In trading, knowing where a Supply/Demand level is, is knowing and understanding what type of trader or trading account is on the other side of your trade.

Knowing that there are two different types of market participant: The novice trader that belongs to the 95% and the Banks, institutions and Big Money that belongs to the 5% ...

A small retail trader isn't able to move price in the market, only institutions and banks are able to do so. The good news is that it is possible to trade in the right direction and to follow the Big Money by simply buying at Demand and Selling at Supply. In other words it is up to you to choose which market participants you want to join!

How to recognize a novice trader?

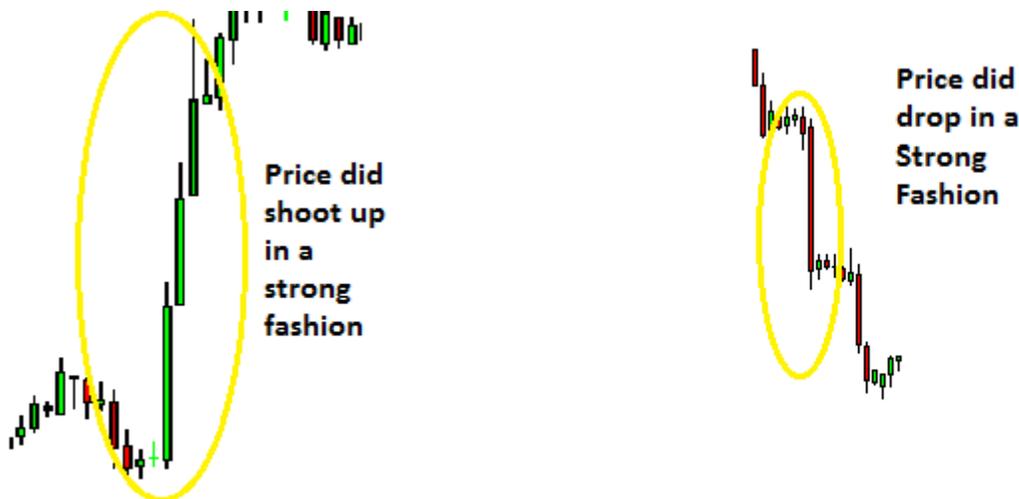
Most of the retail traders aren't trading profitably, it is a fact. They are losing because they buy after a period of buying and they sell after a period of selling while institutions/banks are doing just the opposite!

Identifying a Supply and Demand Level/Zone

Finding a good Supply or Demand level on a price chart isn't that difficult. The first thing we want to do is:
1) Look for an area on your charts where you see that price shot up (for demand) from a certain point in a strong fashion or dropped (for supply) from a certain point in a strong fashion.

We look for a specific point where price has to left, where it simply couldn't stay there. We can tell this because of the strong move up or down.

See chart below for an example:



2) Once we found an area on the charts where price shot up or dropped down in a strong fashion, we then want to see if we can find the base of the move.

The base is basically a cluster of trading, where the candle's bodies are trading sideways, next to each other, creating a zone.

If you can find that kind of zone and then see price dropping or rising in a strong way from that zone, then you have a Supply or Demand area.

Let's look at the charts from point 1 to see if we can find a zone.

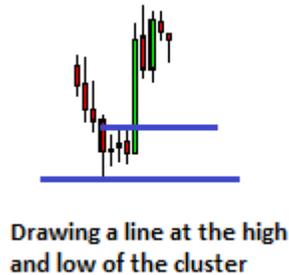
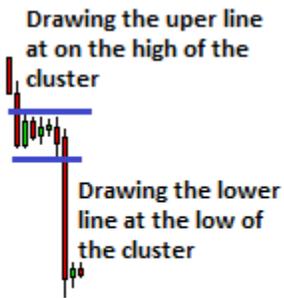


On both of the examples we clearly see the zones we were looking for, preceding the strong moves. This is a Demand level on the left and a Supply level on the right!

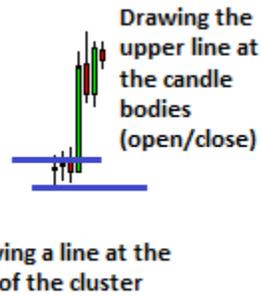
Concretely defining a Supply/Demand zone

Once we found a zone/area like explained above we want to define the base as well as possible by drawing a line on the upper and lower part of the trading cluster. There are two possible ways to define the base (depending on the traders' preference).

1) Draw the upper line at the high of the cluster, draw the lower line at the low of the cluster.



2) For Supply: Draw a line at the high of the cluster for the upper part and draw a line at the candles' bodies (open/close) for the lower part.



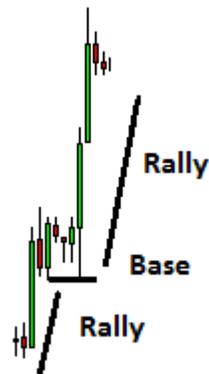
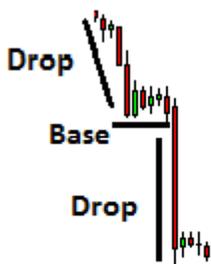
For Demand: Draw a line at the low of the cluster for the lower part and draw a line at the candles' bodies (open/close) for the upper part.

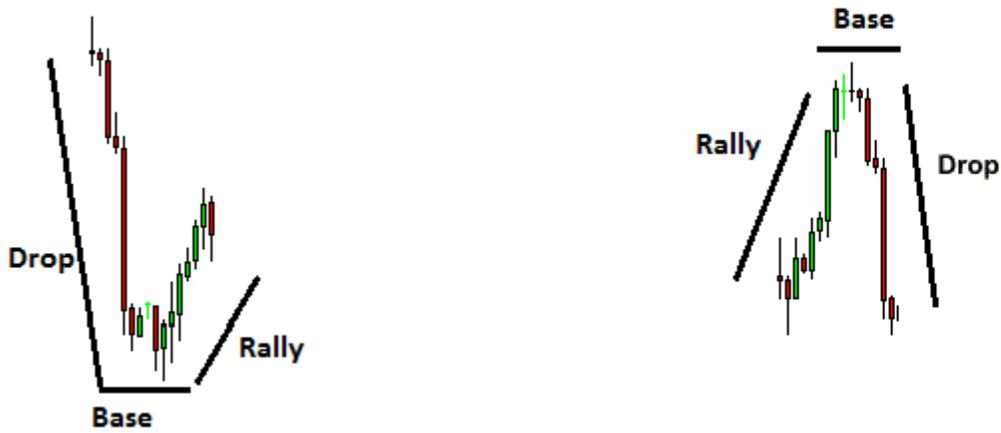
DBD-RBR-DBR-RBD

Another way to identify a zone is also to look at DBD-RBR-DBR-RBD

DBD	means	Drop	Base	Drop
RBR	means	Rally	Base	Rally
DBR	means	Drop	Base	Rally
RBD means Rally Base Drop				

Let's look at some chart and find an example of each.





Balance VS Imbalance

Now that we know how to identify a Supply/Demand level, we should ask ourselves what the level represents... When the level/zone is being formed, we consider price to be Balanced . There are as many sellers as buyers present in the market. However a decision to push price lower or higher has to be made.

So sooner or later, the balanced cluster that we saw will become imbalanced as there would be more seller then buyers.

This will cause a rise or drop in price and therefore price will break the cluster.

The best possible scenario is price breaking the cluster in a strong, violent way because if that happens then we would know for sure that there were more buyers/sellers at this precise point.

Therefore we can expect price to bounce from there when the Level/Zone will be revisited.

How to trade a Supply/Demand Level/Zone?

They are different ways to trade a Supply/Demand level/zone but the highest probability trade is to trade the first visit of the zone because since it's the first visit, the level/zone will still be fresh/untested. Furthermore, it is up to the trader to decide whether they want to take a "Touch Trade", trading the touch of the level/zone or wait for confirmation PA when price arrives at the level/zone.

When a level/zone is getting tested for the first time, we know that this "freshness" gives us the highest probability trade, however this doesn't mean that you have a 100% guarantee that it will bounce there as nothing is 100% in trading.

Also, it is possible that price will bounce at the 2nd or 3rd visit... We don't know how many times it will be tested until the level/zone breaks. Every time a level is tested, it gets weaker and weaker, this is why the first visit gives the highest probability trade...

Broken Supply/Demand

When a Supply/Demand gets tested different times we know that soon or later the level/zone will eventually break. When we see a strong break from a supply zone, we know that bulls did buy there, therefore, we don't consider this zone as Supply anymore but instead we consider it to be a Demand zone now and vice versa for a broken Demand zone.

Supply became Demand or Demand became Supply, this is also called a swap level. If the level was broken in a strong fashion, then we would look to buy/sell from a swap level when price will come to visit the level.

Important

Note:

We also look at swap levels for targets, those are important decision points too.





The Profit Margin

Having a good Supply/Demand level/zone isn't just enough to take a trade blindly ... You have to make sure that the potential profit on the trade will be high enough. Make sure that the R:R is good enough by identifying where a previous decision point, Supply/Demand point was.



As a final word, I would like to mention that supply and demand opportunities can be found in every timeframe and in any trading market.

Now that you know what to look for, I suggest that you go and find some examples for yourself on your charts. Try to master this as I believe this is what will take your trading to some new levels... At least it was the case for me...

Good luck!

Mel.

SUPPORT AND RESISTANCE

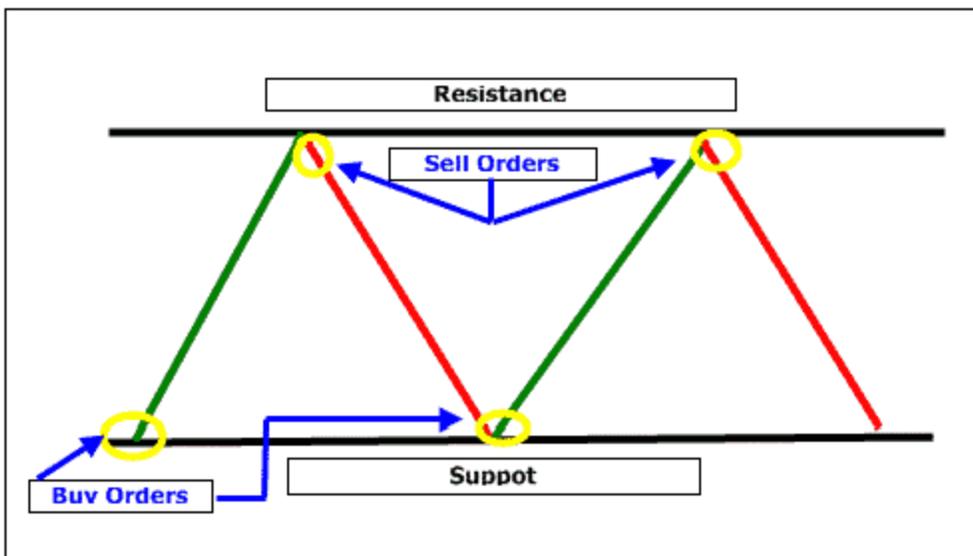
WHAT IS SUPPORT & RESISTANCE?

A Support also referred as “floor” and Resistance also referred as “Ceiling” is nothing more than a decision level that first gets tested and then either “accepted” or rejected, thus “broken”.

When Price bounces from a Support level, it does so because there was much more Buying Pressure than Selling Pressure at that particular point and vice versa for a Resistance level.

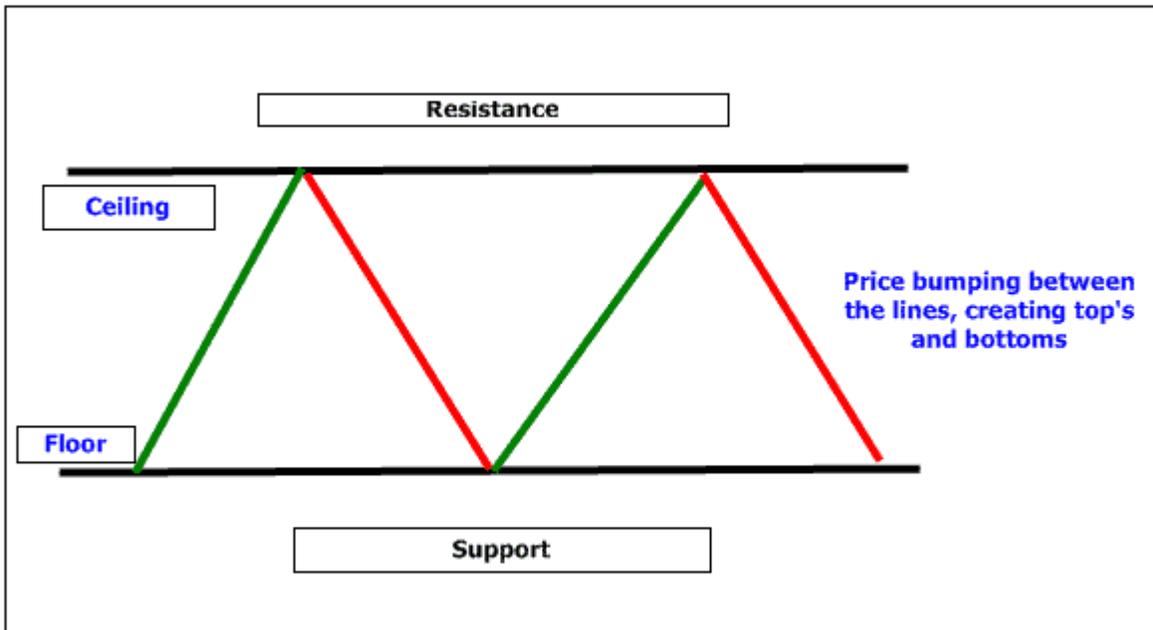
It's as simple as that...

What do Support & Resistance look like?



As you can see on the above picture, when price came to test the Resistance level, a decision was made. In this case the decision was that price was too high, forcing price to trade down until it found a Support level.

Let's look at the picture below. Look at the "pattern" in which price behaves between and at the lines, It is almost like a bouncing ball that is bouncing from the floor to the ceiling...



Support and Resistance breakout

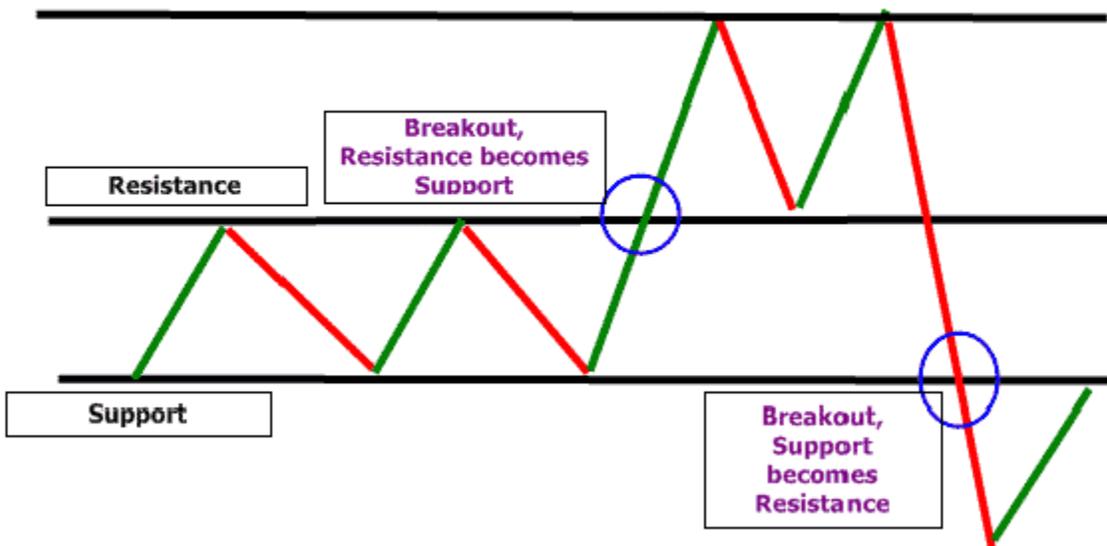
If you search for Support and Resistance on the internet, you will probably find that lots of sources/traders think that the more a Support or Resistance level gets tested, the better...

Obviously, this doesn't make sense at all, because every time price comes to test an S/R level, it consumes the Sell/Buy orders at every touch/retest. So sooner or later all the orders will get filled and a breakout will have to take place.

When a breakout will happen, Support will often become Resistance/ Resistance will become Support.



When we went over the Trends topic, you learned that in order to have an uptrend, price had to keep on making Higher Highs and Higher Lows and Lower Highs and Lower Lows for a downtrend, Now you will understand that the highs in an uptrend, and the lows in a downtrend, will have to get broken for the trend to continue it's direction.



How to draw a Support/Resistance level?

There are really no fixed rules to draw Support and Resistance levels Often the easiest way to draw a Support/Resistance level, is to use a line chart.

Let's look at a line chart and find some Support and Resistance levels. Looking for Key tops and bottoms with at least 2 touches in order to draw a horizontal line. What we want to find are turning points or swing points and mark them.

When looking for key turning points and swing highs/lows, you'll see that when drawing them, other points are going to stop/reverse there too. This is what we want to find



This is the same chart, same lines but I've change it to a candle chart... Do you see something interesting?



Look at how the lines holds , then get broken and get retested again

Sometimes you will see price arriving at a support or resistance level and trying to break the line, trading above the resistance or below the support and than quickly pulling back and closing under the resistance line or above a support line. This is what is called a "false breakout" , or fakeout. A fakeout happens for different reasons. One of the reasons is that price is looking for liquidity (a stop loss hunt). We are not able to know how many touches a support or resistance can accept, we can only know that it often becomes the opposite once it is clearly broken.

Extra Comments:

-When we get a False Breakout at a support or resistance level, while it's breaking out, it will very often react to a previous decision point.

-A support/resistance area is not totally the same as a Supply or Demand level.

A supply or demand level is an area where the real orders are placed while a support or resistance area is where we can spot the retests of the fresh supply or demand levels. However, we believe that every historical price lines such as Support & Resistance are based on a historical Supply or Demand level.

-Support and Resistance areas can be spotted on any chart and on any timeframe. However, the Higher Timeframes supply and demand zones are much stronger than the Lower Timeframe ones.

KEY LEVELS AND PRICE ACTION THERE

What is a price level?

A price level on chart could be defined by plotting a horizontal line, but in fact the level is an area or zone and not a specific price value.

What is a key level?

Key level is a level that has a great history acting as support and resistance, in other words “a level of flip between support and resistance”.

Are there any other terms for Key levels?

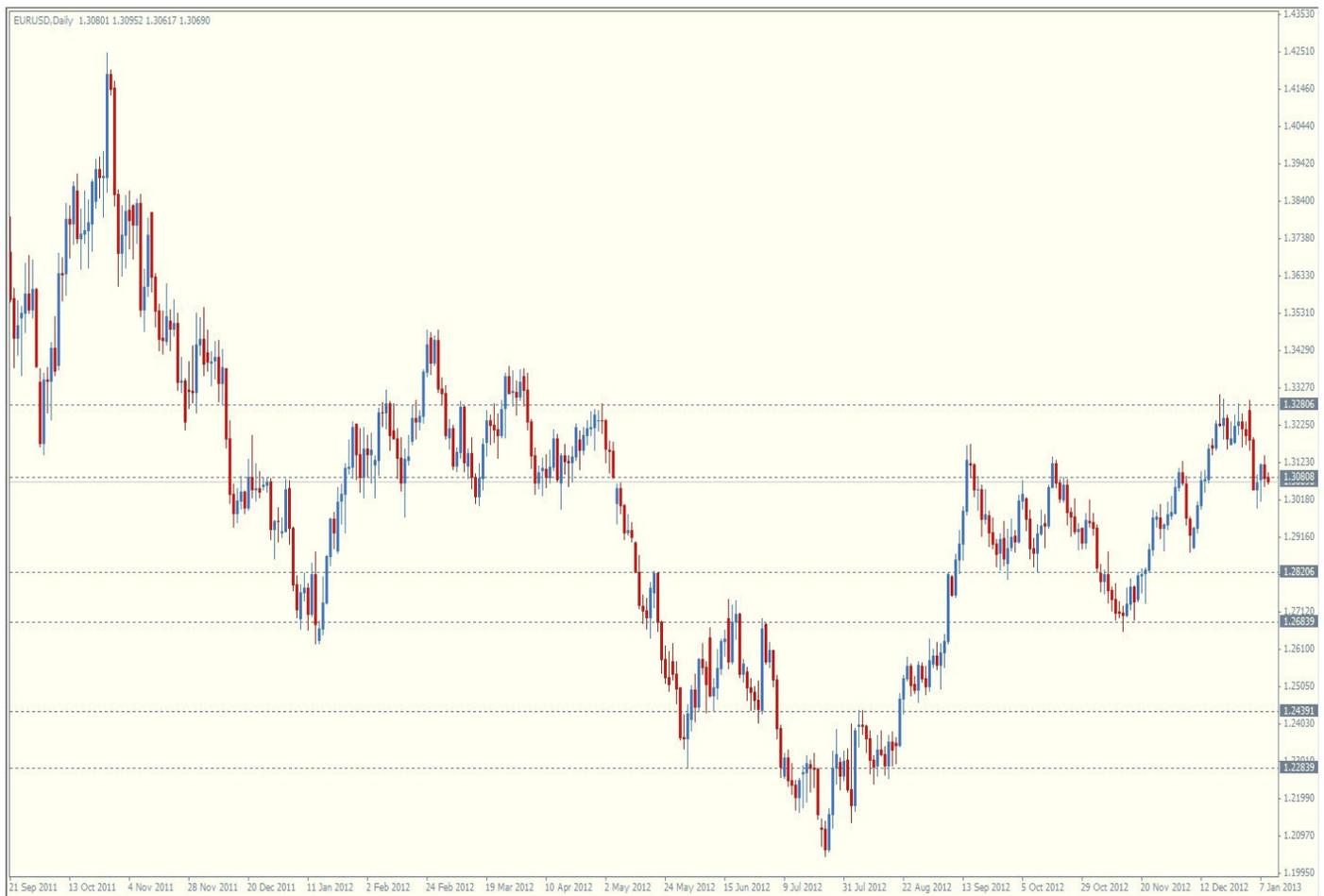
Yes, it's also known as Pivot Zone, S/R Flip and Swap Zone.

Are there different types of key levels?

Yes, there is a major key level and a minor key level depending on clarity and efficiency of the level.

How do we locate key levels on chart?

A picture worth a thousand words, the first type of key levels are the major key levels which you can locate easily from the first glimpse at any chart by defining swing highs and swing lows. The following chart shows daily major key levels for the pair EUR/USD, some prefer to set levels at the nearest round number if possible.



If it's still not clear how to locate these levels, then don't worry because the next chart has the same levels with added coloured markers to indicate the key areas above and below the levels. Each group of pointers of same colour is assigned to one level.



The second type of key level is the minor key level, which in some cases acts as a second option for a major key level and when combined together they form a key zone, although they have a less significant history compared to major key levels, and could cut through a wide range of candles. In the following chart minor key levels were added, using a different colour to differentiate them from major levels.



Once again, the next chart with added coloured markers for a better visual explanation.



Price Action:

We have taken the chart which has both major and minor key levels and we divided it into two sides by a vertical black line. From the left side of the chart to the divider shall be considered as history and the right side as present time. The location of the separator was intentionally chosen because the same levels could have been located up to this stage without the existence of the right side.



Now, we will study the candle closes in relation to the key levels starting from the orange pointer where is written "start":

Price was moving above the lowest major key level then it moved up breaking through the higher major level with momentum and closed above it [1], the next candle retested the level and closed above the higher minor level [2] followed by multiple retests of the same level without any close below the level, later it tested the next minor level and failed to close above. Price consolidated in between the two minor levels [3]. When the decision was made price broke through the upper minor level and the next major level with high momentum and closed above the two levels and below the next major level [4], third candle broke through the major level closing above it and below the next minor level, followed by a retest of major level and a close above the higher minor level [5], the next candle broke through the higher minor level and closed slightly above it and retested with the second candle[6] before moving up with momentum breaking through the next major level and closing above it [7]. Price failed to break the higher minor level and broke down through the major level with a close below followed by a retest and drop [8]. Price continued dropping breaking through lower levels till [9] where it failed to break the major level and closed above it, this was the first retest of this historical major level after a long time and we can see price bounced from it to [10].

Now we'll speed up the process a bit and concentrate on bigger moves. At [11] price had another retest of the same major level failing to close below it and it went up to [12] where it broke through the major level with a close above, but the next candle broke through the same level in the opposite direction and closed below, after a retest price declined to [13] where it closed above the major level and this was a fresh retest of a historical major level, a retest was done by the

fourth candle and price rallied up to [14] and this is where we stop. I think now you can see the importance of key levels and candle closes, I left enough candles for you to read by yourself.

Conclusion:

Key levels are highly respected by price, and if price breaks through it and close above or below then it's a sign of where price will go next, in most cases it will travel to the next level.

More often price will give another chance for entry when it retests the strength of broken level before moving to the next.

When price breaks through a level with high momentum and closes above or below without a retest then it's a sign of big buying/selling.

MOMENTUM AWAY / LIQUIDITY GAP

This article will answer any questions you might have about what is the definition of liquidity gap, and how (and why) you expect price reaction in relation to it.

There is no easy way to answer this question as it requires a study of the market microstructure which explains how the exchange occurs in financial markets and the order flow process, but we'll try to make it short and simple.

First of all, here are some the terms that have the same meaning or definition to avoid any confusion:

*Base = Cluster = Equilibrium = Indecision = Balance = Stable = Normal = Efficient = Range = Consolidation = Flag.
Decision = Imbalance = Unstable = Abnormal = Inefficient = Momentum = Impulse = Liquidity Gap/Spike = Engulf = Pole.
Corrective Moves = Rebalancing.*

Second, refer to the [Order Flow](#) article before reading this article, and the [Key Levels & PA](#) after reading this article.

Now back to basics; we know that in a normal liquid market there is a seller for every buyer and vice versa, this is considered a stable state of the market as it creates a balance between supply and demand and maintains a stable price value, and as the imbalance occurs in supply and demand the value of price increases or decreases. The balance state on a chart is represented by a consolidation in price, and the imbalance is presented by a high volume/momentum candle (also known as a sign of Pro money / Institution's buying or selling). If we zoom into the consolidation (LTF) we'll find other states of balance and imbalance.

The order flow article has explained the execution of orders, and to recap; to have your orders executed at current price you need someone on the opposite side with the same number of orders otherwise price will move too much from your entry until it finds an opposite stack of orders. Retail traders have a big advantage over Pro money since their orders get executed at current price, a benefit that Pro money doesn't have due to their mass orders which gets executed at

different prices as the price moves away from their initial entry. Hence they tend to accumulate/distribute their orders through positioning, re-entering on retracements or even creating them as well as fakeouts.

By now you should understand why the sign of pro money buying/selling is presented by high momentum candles aka liquidity gaps, but if you don't then continue reading.

A liquidity gap means low liquidity! How?! You know that in a liquid market for every buyer there is a seller and vice versa, but you also know that online brokers don't guarantee a non-slippage or a no requote during the time of volatile news due to low liquidity, and you can clearly see it on charts during such news when a long spike or a high momentum candle is created in seconds. A broker wouldn't take the risk if you're buying because they can't find you a seller unless they are willing to take the risk by selling to you as a dealer.

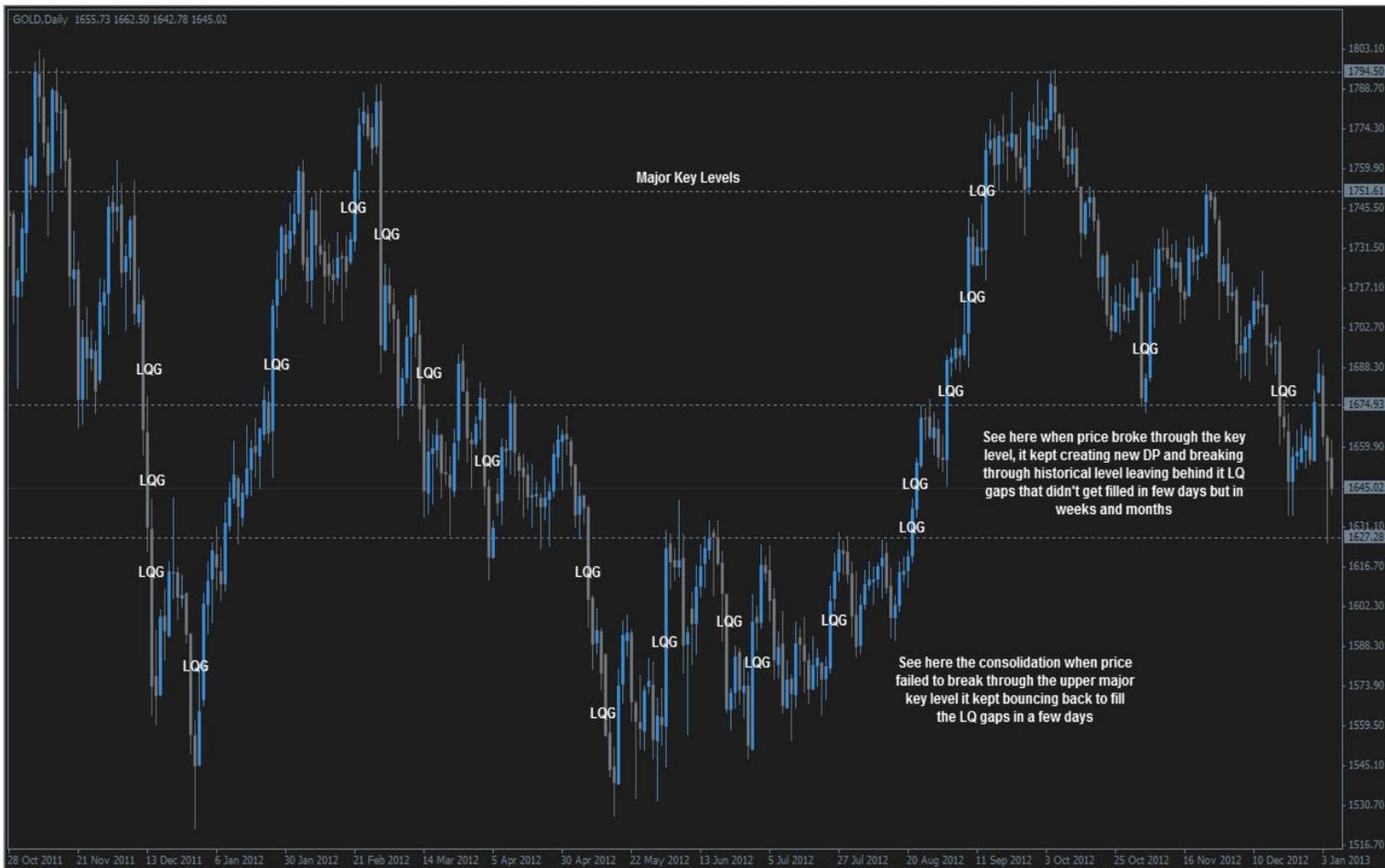
So how could we say it's a low liquidity when price moves in a high volume?! Again, we know that high volume candles are signs of big money, institutions etc. entering the market or in control of the market pushing price in their direction...that is true. However, the liquidity in this case is being injected from one side only (the dominant side) hence the name liquidity gap and the equation "Volatility = High Volume + Low Liquidity".

Now bear with me...The "normal or balanced state" of the market is to have a seller for every buyer thus maintaining an efficient change in price value, so when the market moves up or down either in consolidation or in a ladder steps behavior then it's a "normal balanced state", but if it moves up or down with a high volatility and momentum then it's "abnormal or imbalanced state" and it's a sign of domination from one side.

So what is the conclusion?! The dominant side (pro money) would want to collect their profits as soon as price reaches their targets which results in market returning to its previous state (rebalancing) on a wider scale and filling up the liquidity gaps.

The definition part of the question has been answered; now let's answer the other part related to price reaction.

Look below at the Gold daily chart and see the price behavior when it broke through a decision area/major key level of significance, creating a high momentum candle as a sign of one side in control, bulls or bears, and how they wanted to push it higher or lower. Of course price will return to fill the LQ gaps, but later in the future, not at the present time of the incident, especially not when it starts creating a new DP/Supply/Demand as pro money position their entries. On the other hand you can notice larger high momentum candles (LQ gaps) getting filled the same day or next day, but this happens when price fails to break through a major DP or key level and this is when pro money are accumulating/distributing (bottom and top side of the chart).



The market is in a constant state/phase shifting from normal to abnormal, balanced to imbalanced and back again, just the same as in ranging to trending and back again (refer to Wyckoff Market Theory), and every range contains the two phases if you zoom in, the same applies to the bottom consolidated area in the chart.

Supply & Demand trading style is in harmony with order flow and it works according to this stuff.

CAPS - RBD/DBR

When price makes a rally with a strong pole up (this whole lesson works vice versa for poles etc down), there's sure to be some profit taking by the institutions, allowing price to drop back into the pole.

Price will very often flag at the top of the pole, as the institutions either begin to add long positions to take price higher, or begin to hide short positions to turn price.

To understand the break of a flag, be aware of [Order Flow](#) and [Liquidity gaps](#)



This article deals with the latter scenario; price rising (rally), flagging (base), and then dropping (drop!)

The flag was a way for the institutions to keep retail traders buying in the expectation of an advance in price, giving them lots of orders to sell against.



It seems they were piling in short orders after all, making a Rally Base Drop

Seen in a slightly higher timeframe, this is a very uniform cap on price, and in every TF there's a really strong pole moving down from it

Fits neatly into a nice uniform box

B

R

D

PA tip: See how price has engulfed the base of pole

ReadTheMarket.com

The cap price is obviously way too high, so when price returns to it, the sellers are waiting.

There are often other signs that a cap will hold, such as the [engulf](#) in the chart above, or [compression](#) on approach

Caps are simply excellent places to look for price to turn!



FLAG LIMITS

Price spends more time in consolidation ranges than moving and trending.

Until recently i would wait 'til price breaks out of these ranges and i would wait for a retest of the break.

But these ranges are tradeable, so why not benefit?

A few months back Ifmyante posted an image of a BEFL and he said price should bounce at this area and he pointed at a DBD hiccup in the way down.

I said i have noticed a lot of these and asked what is the name, he said "we don't have a name for it, just a decision point".

I told him "i think i found me some new homework, i'll go find many examples of it and report back."

I guess this is it now.

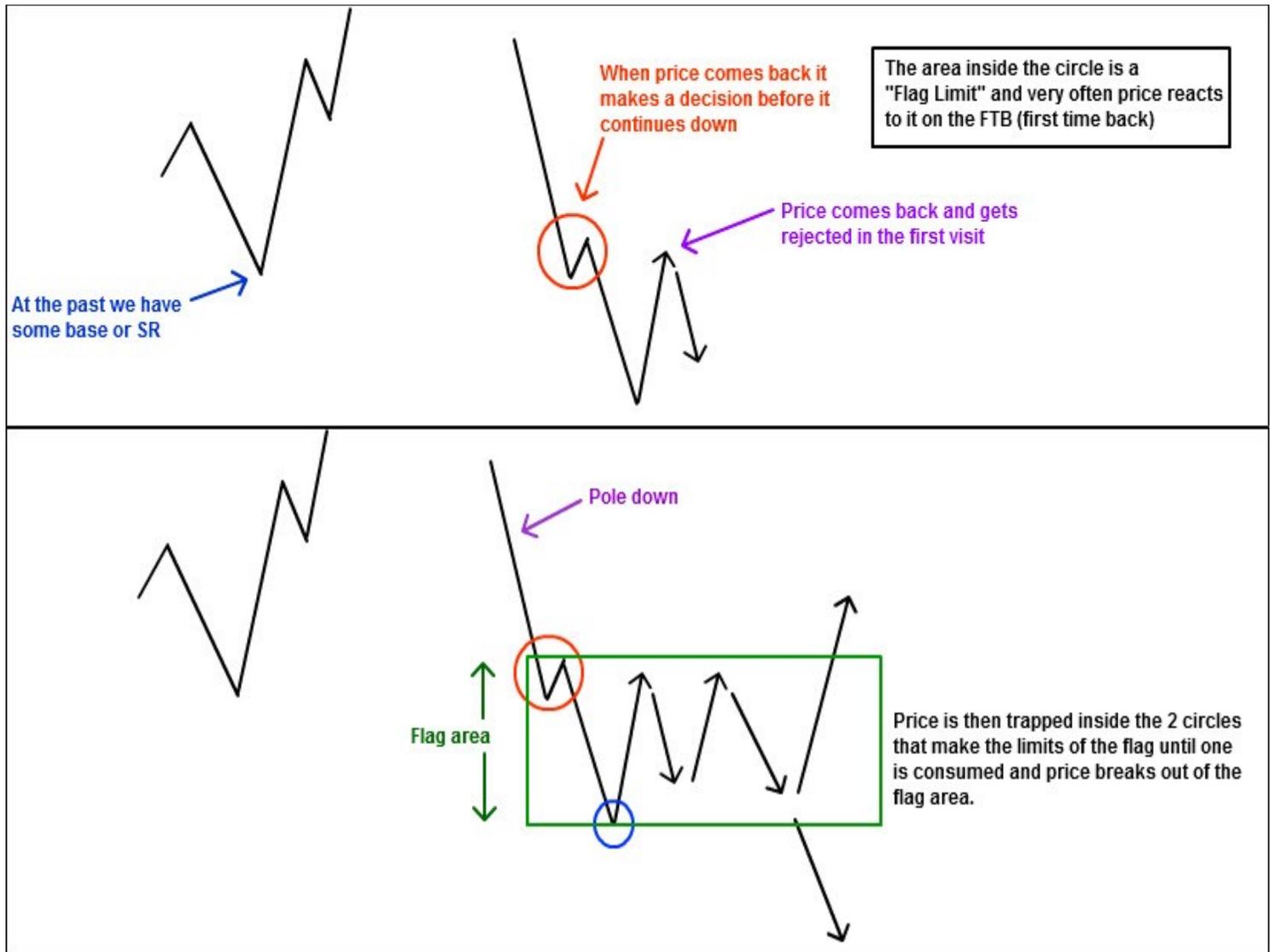
So here is a short article of what is a "Flag Limit" since it is widely used lately. It should help avoid confusion.

As Ifmyante said a while back : "If there's an area of indecision, it manifests itself as a flag. The limits of this flag then become the new zones."

He also said that "the Flag Limit represents the end of the momentum".

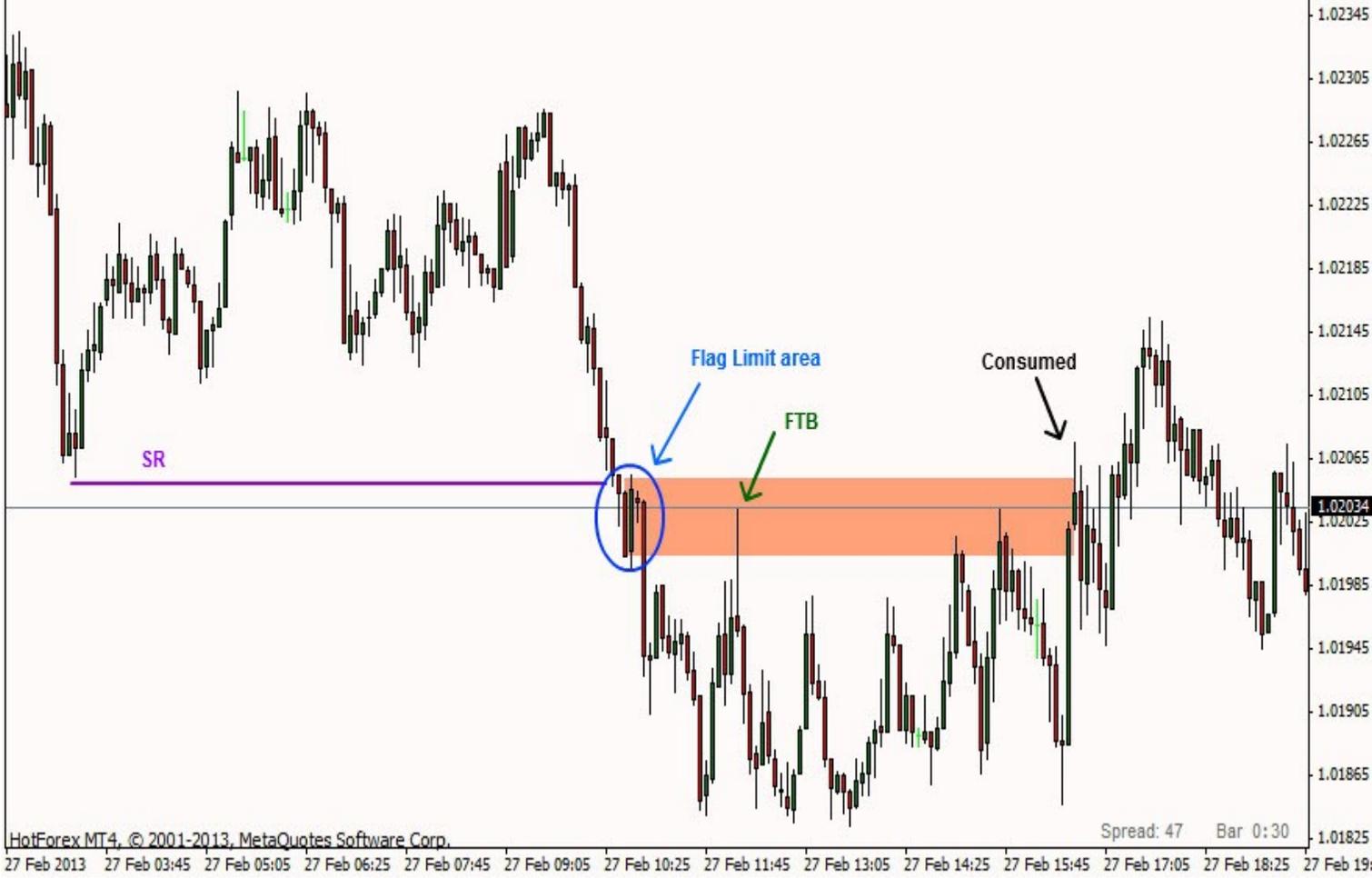
All credit goes to him, for bringing it to my attention.

Below are some graphic representations to simplify things before we go on real examples.

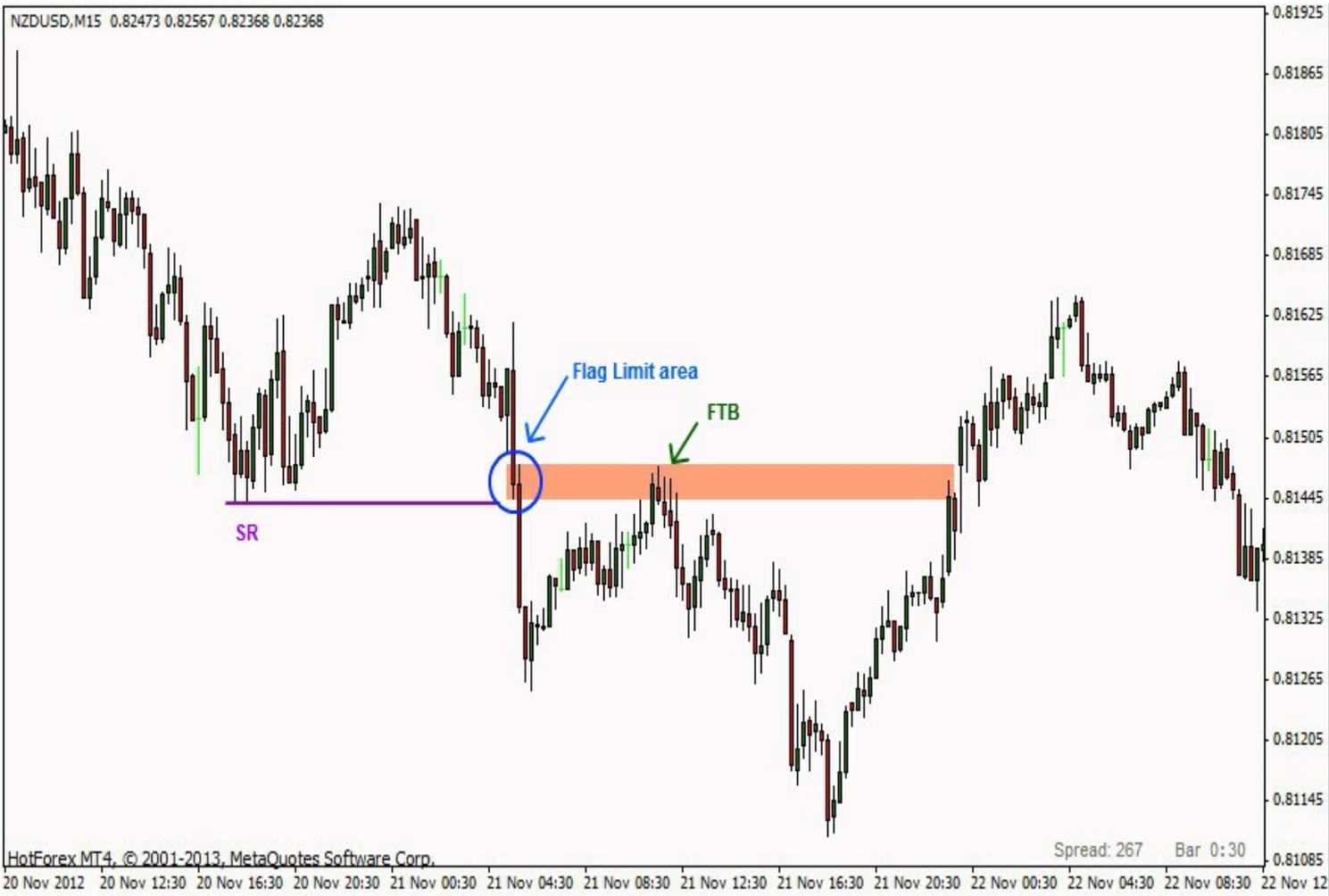


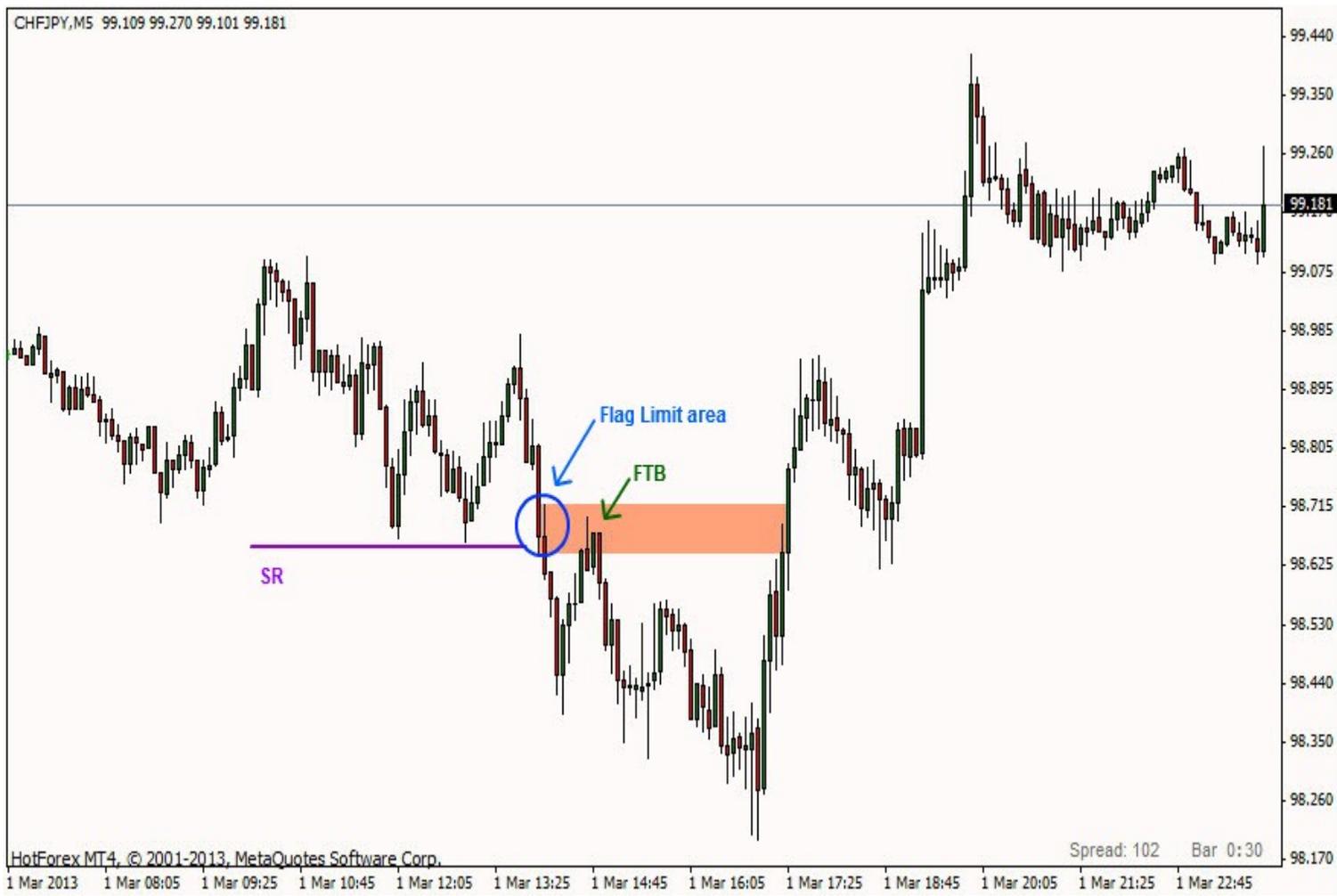
and some real examples follow

AUDUSD,M5 1.02021 1.02037 1.02019 1.02034



NZDUSD,M15 0.82473 0.82567 0.82368 0.82368





Some of course are more messy than others, the trick here is to take the best shaped and clear ones.

The whole Flag area has a lot more plays than the FTB alone.

Its your job, if you like, to take this basic setup and expand on it.

I don't list any other plays here because it will only confuse you for now and miss the basic point.

Discussion will continue in your blogs, if you have questions post in the school room.

Best of luck to everyone.

COMPRESSION - PART 1

Touch trading a Supply/Demand zone can be a very daunting prospect, as price doesn't always react as we'd like it to.

But, we're very often shown that the big money is getting ready to turn price at the next zone.

As price is rising, they start selling down to pockets of demand on the way, consuming the orders, so that when they put their big orders in at Supply, all those buy orders are gone and price can slide through to the origin of the compression or beyond.

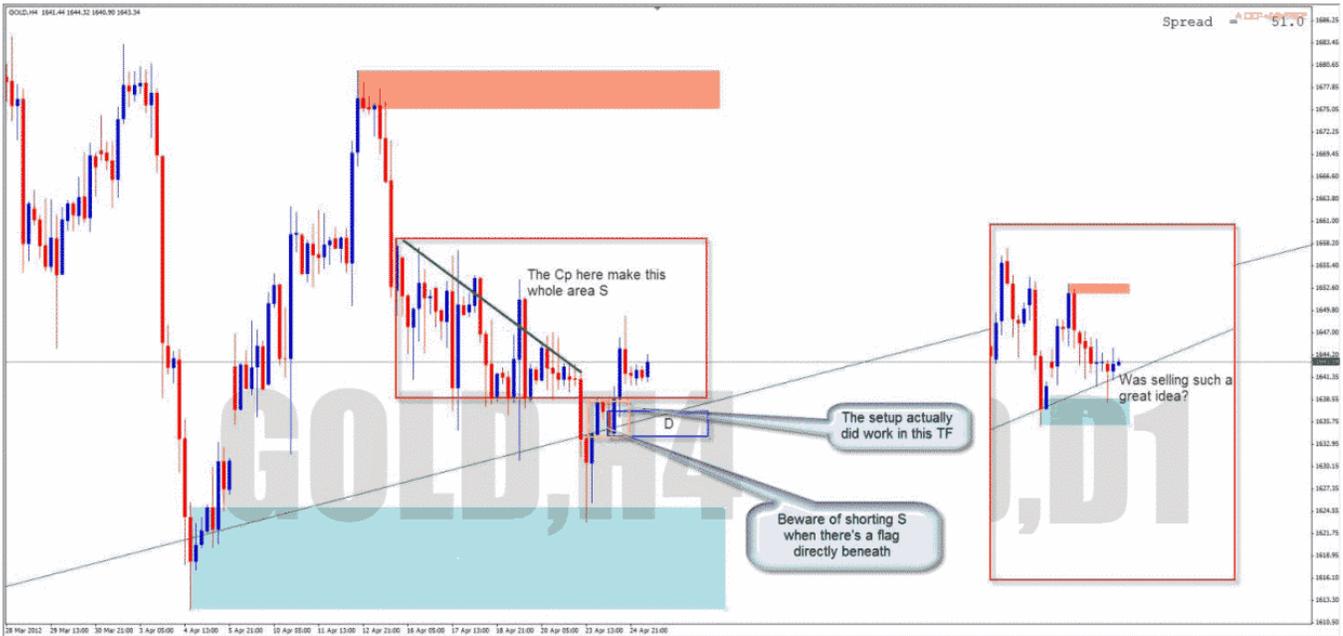
It's exactly the same principle for price compressing down to Demand



In the example below, price compresses up to a certain point, above which there is no Supply left before the origin, so it shoots up to there before

reversing and cutting through the CP. This is called Compression and Liquidity (CPLQ)

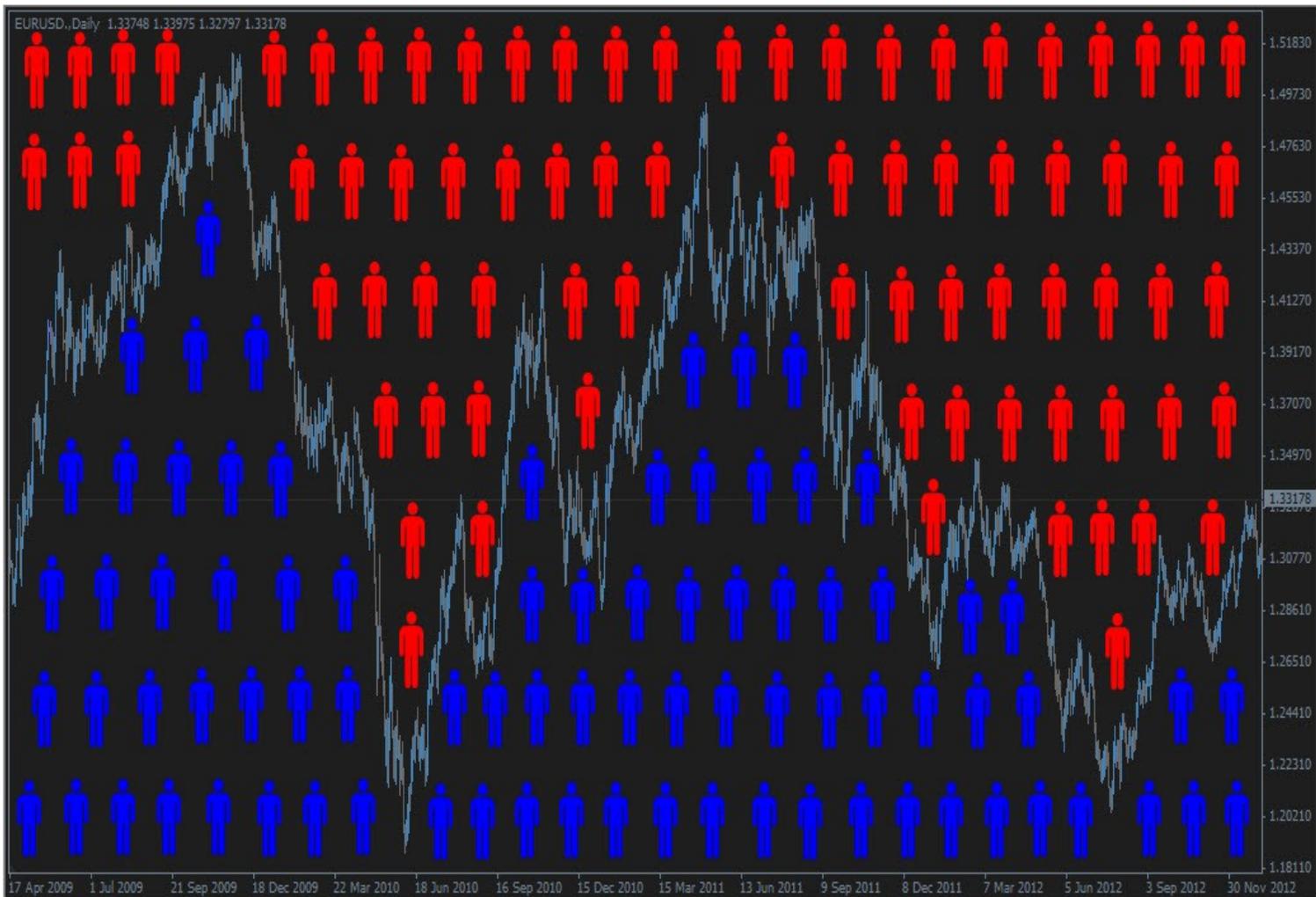




STACKED ORDERS/ZONES

Price in a chart reflects filled orders and the empty space surrounding it is full of unfilled orders. As explained in the [Order Flow](#) article, unfilled orders move market price, so we need to focus on the big unfilled orders.

The image below represents unfilled buy/sell orders; we can see the buyers (blue figures) are stacked up and increasing at lower prices, also the sellers (red figures) are stacked up and increasing at higher prices, "BUY LOW, SELL HIGH!".



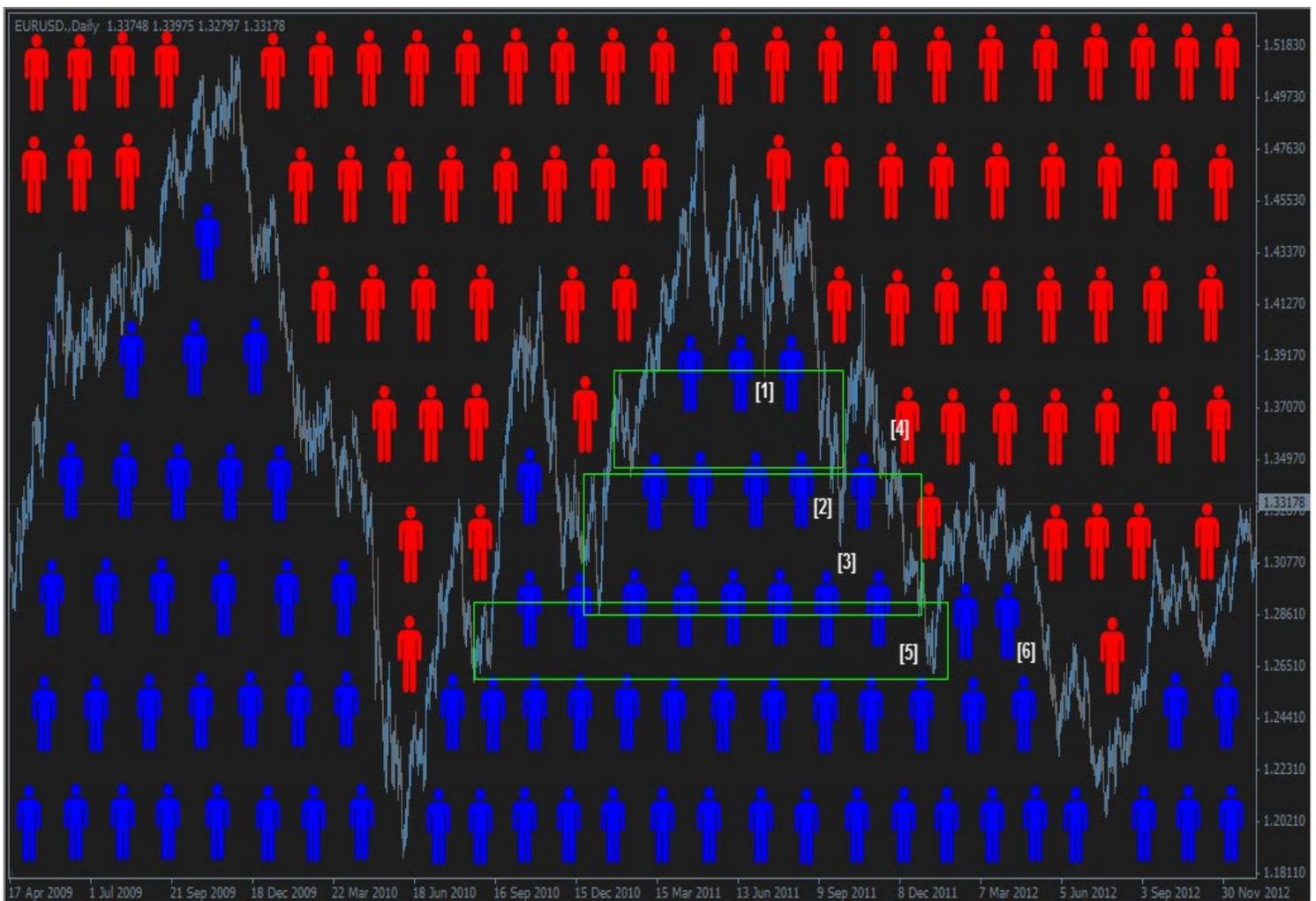
Stacked buy orders form zones of demand, and stacked sell orders form zones of supply. Moreover, every demand zone has a stack of unfilled bids, and every supply zone has a stack of unfilled offers.

The following examples apply to stacked zones as well as to stacked orders in a zone;

In a demand zone scenario, bids would be stacked below each other (the wider the zone the more buy orders at different prices) the majority would buy low and this is why unfilled orders would increase lower into the zone, and with every return of price to the zone the buy orders are decreased until they're all consumed...now this doesn't mean the pro money would be sitting at the lowest prices...not necessarily...they are the smart money and they know where to position their bids, it could be among the lowest bids i.e. where a compression ends and price rises, or it might be among the highest offers and this is when we see a spike or a quick touch of the zone's higher edge followed by a bounce and price rise for a certain distance before returning back and starts pressuring or forming a descending triangle consuming the entire zone. However, pro money will always be present at lower zones to buy cheap.

In a supply zone scenario, offers would be stacked above each other (the wider the zone the more sell orders at different prices) logically the majority would sell high and this is why unfilled orders would increase higher into the zone, and with every return of price to the zone the sell orders are decreased until they're consumed...now this doesn't mean the pro money would be sitting at the highest prices...not necessarily...they, as stated before, are the smart money, and they know where to distribute their offers. It could be among the highest offers i.e. where a compression ends and price drops, or it might be among the lowest offers and this is when we see a spike or a quick touch of the zone's lower edge followed by a bounce and price drops for a certain distance before returning back and starts pressuring or forming an ascending triangle consuming the entire zone. However, pro money will always be present at higher zones to sell more expensively.

In the below image we have located three stacked demand zones (green boxes) to study price behavior when it returned to it;



Starting with highest demand, price returned for a 2nd visit at [1] with a quick touch forming a spike into demand followed by buying pressure, 3rd visit was accompanied by high selling momentum and price dropped deeper into the zone consuming remaining bids 'til it reached lower demand at [2] (note this was a 2nd visit, look left) and first reaction pushed price higher but not far, and it came back for a 3rd visit dropping deeper into demand at [3] and here you can see a stronger reaction than [2] pushing price a higher distance. Later price came back for a 4th visit but notice how price was basing (consolidating) above demand at [4] creating a new supply cluster resulting in high selling pressure, and price dropped all the way to the last demand zone for a 2nd visit and deep into it, staying inside the zone for some time until a decision was made and price rose out of it. When price returned for a 3rd visit at [6] preceded by high momentum selling and it was clear that demand was consumed at [5] allowing price to drop further.

The strength of buyers and sellers plays a big role in this process every time it happens, hence the importance of how price leaves a zone, and how it's approaching it.

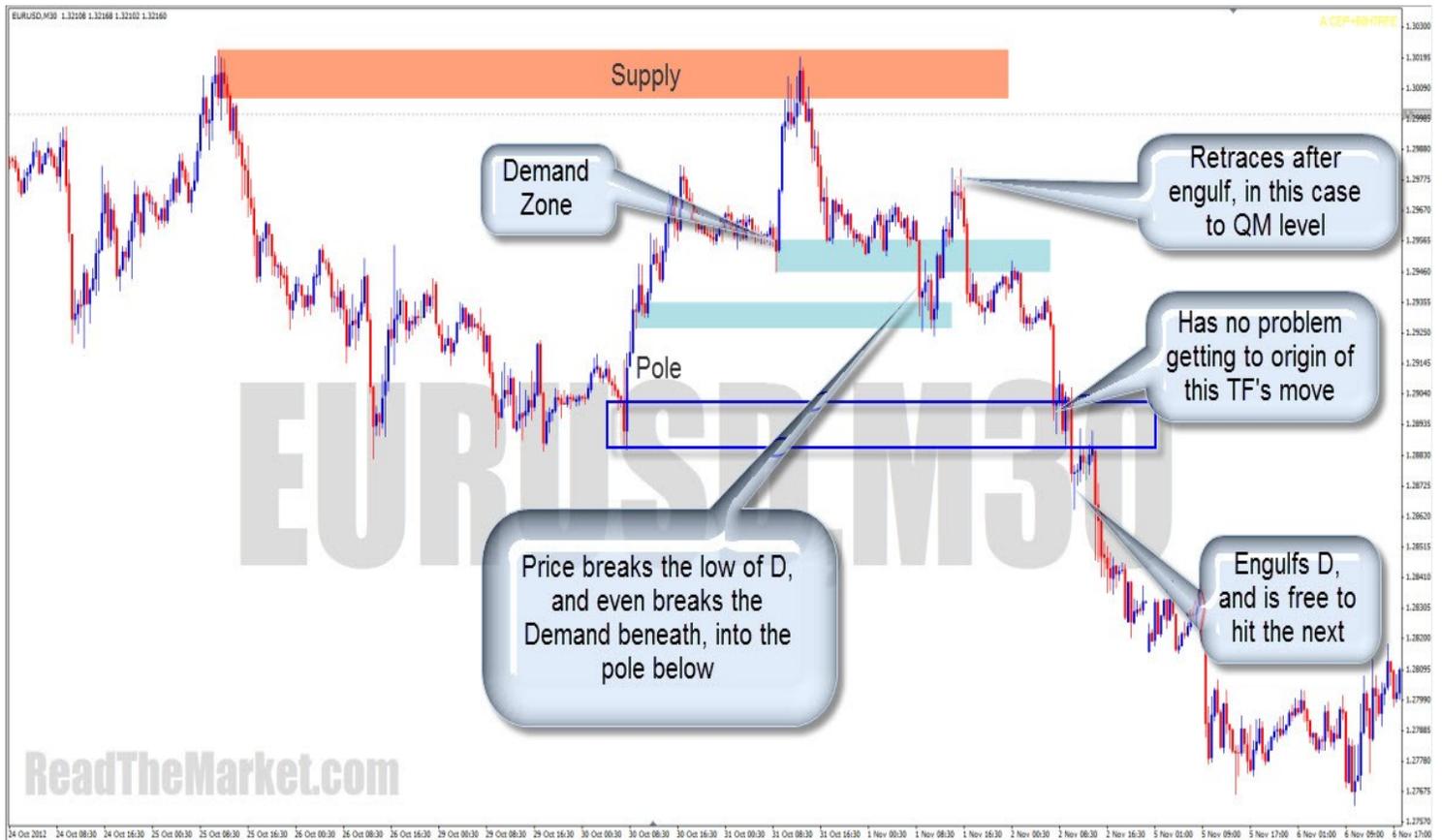
ENGULF

If you're not one to simply trade on the touch of a zone, but would rather wait for confirmation that price has rejected, there are some brilliant PA patterns you can look for before you enter a trade.

The best ones we'll cover involve an **Engulf**

Simply put, an engulf involves price making a lower low on reaction to [Supply](#), or higher high from [Demand](#)

This is a very powerful sign that price is on the turn. They say that a **trend** is a succession of LL's and HH's, or vice versa, so if you get a Lower Low from Supply, it's a great first sign that the uptrend may be over, and of course flip the scenario for an HH from Demand.



If you didn't have the patience to wait for that engulf, see the Lower timeframe for another lovely engulf showing the way much earlier!



Can you trade an engulf as a breakout trade?

Well, yes, but price very often retraces after the engulf, to confuse the breakout traders and hit their stop losses, creating more orders to take the other side of the big money's new direction trades.

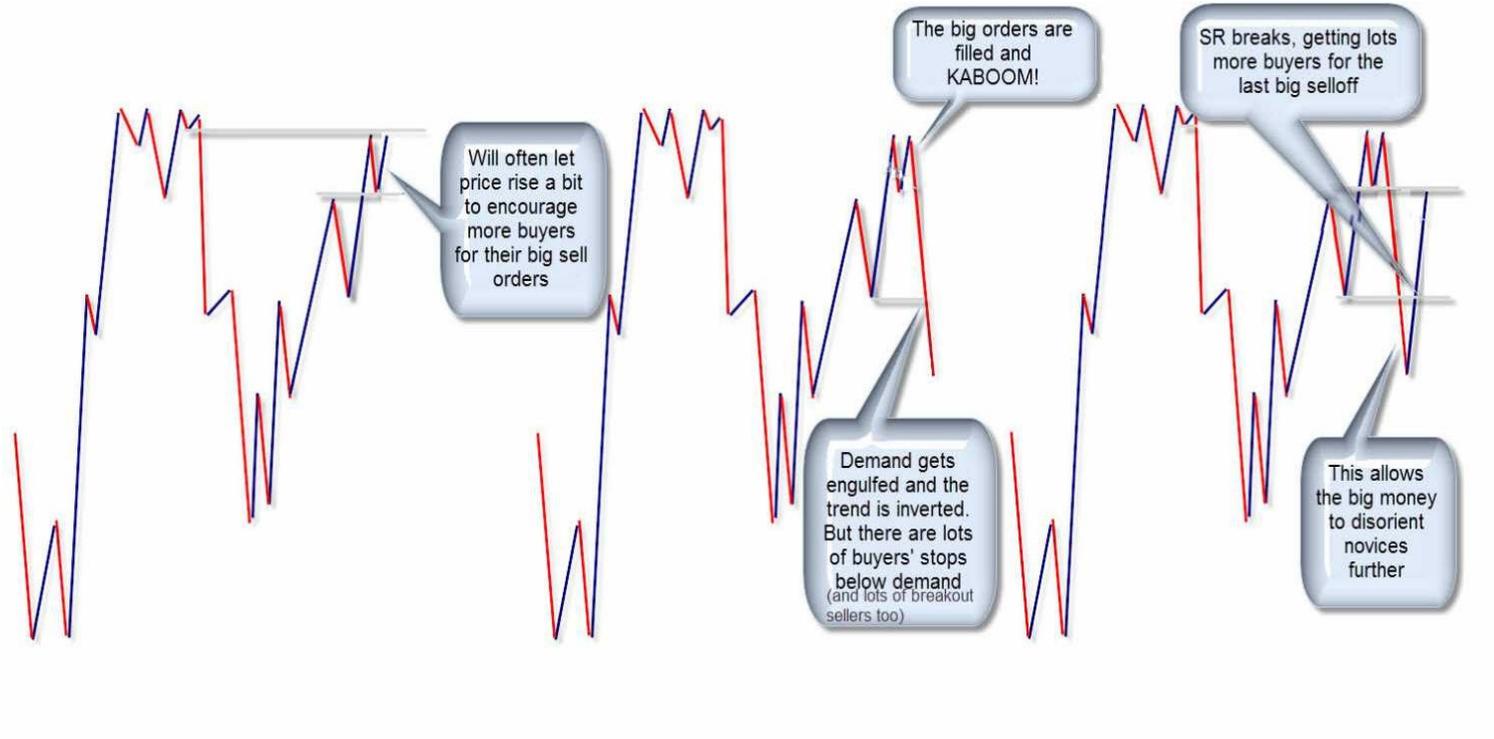
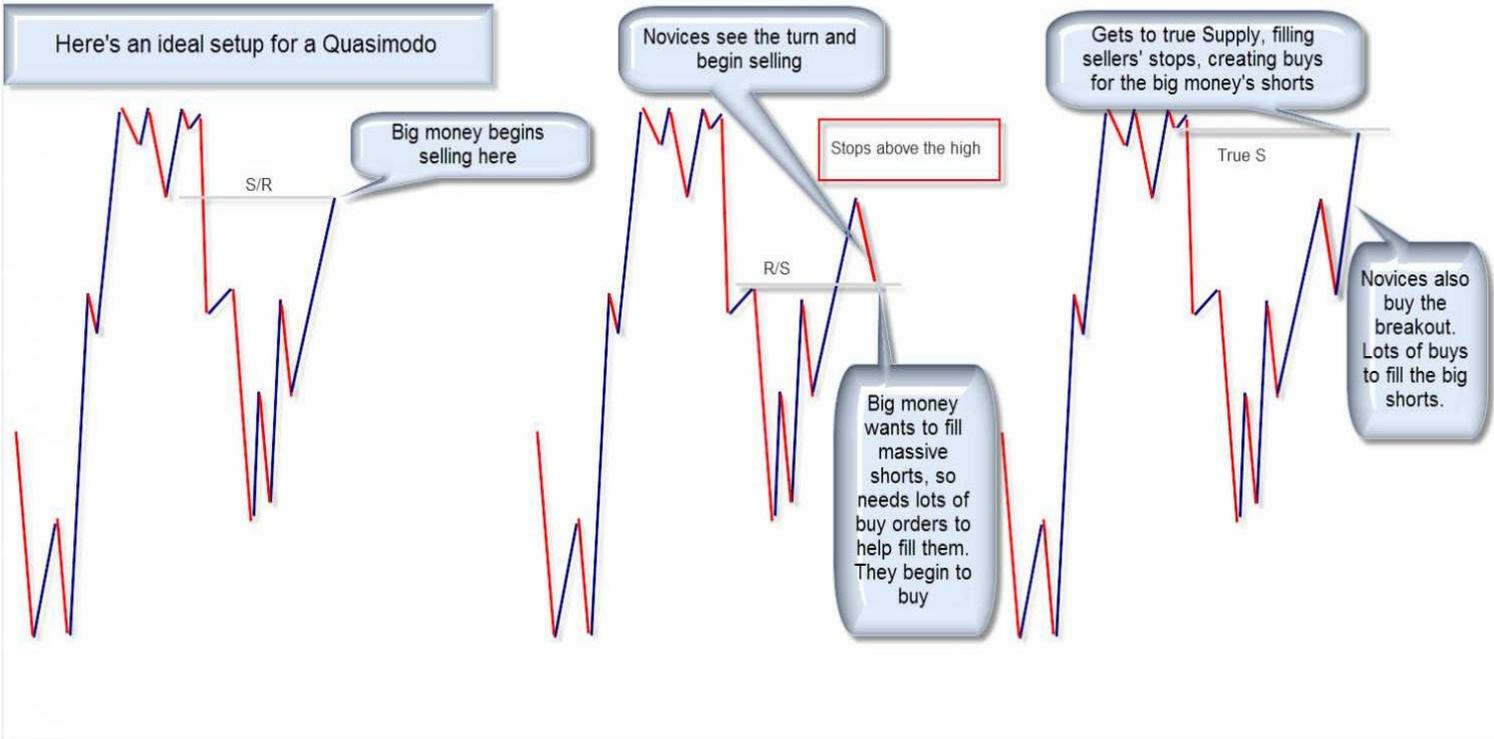
This means that the stop loss would, in most cases, still need to be beyond the original zone.

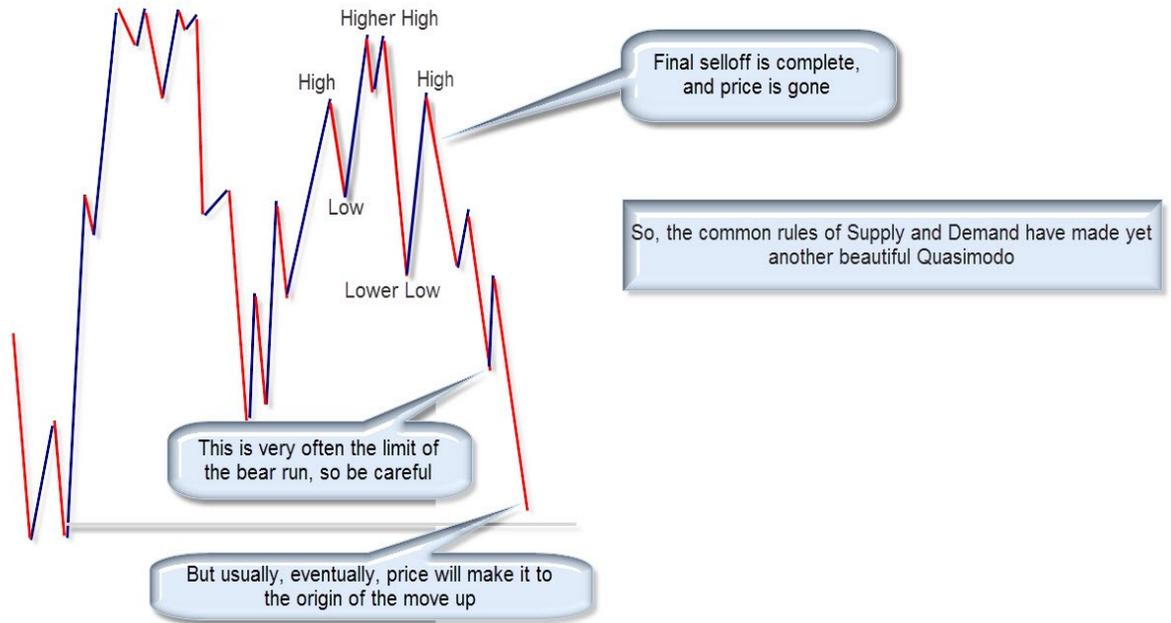
QUASIMODO

The Quasimodo is a beautiful and powerful Price Action structure.

It gives a big sign that the big money is ready to change price direction. It often serves to trick the uninitiated into giving up good positions to them, allowing them to get big orders filled.

We look for them at areas of Supply and Demand, where we look for all our trades, and use them as confirmation that price has turned, due to the engulf that occurs in their formation





A QM doesn't need to form all at once either

Here's a video of one which took many months to form - it was also one of my favourite trades ever

<http://youtu.be/JufS5cKBVng>

Homework:

Find at least 60 QMs through history and file them. Mark the zones they're reacting to, and where price went to next.

They can be in any TF, any pair. Find ones that worked, and ones that failed. You'll learn from both

THE DIAMOND

The diamond is one of the most deceptive price structures there is in the market.

It catches both buyers and sellers alike, and can fill massive orders for the big guys.

At Supply, it involves an engulf South, fakeout North, and reversal South - vice versa at Demand

Since a picture tells a thousand words, here are some charts



Aside:
See this QM? We'd
all love to get in on
this

Massive orders are then
placed to shoot price up. This
certainly spooks all sellers.
Once it engulfs the high,
sellers may very well close
their shorts.
Breakout traders will also
begin to buy

readthemarket.com



This is one reason why you should know exactly where to place your stops, and have the faith in the zone to leave your stops there

CANDLE PA

Have you ever wondered what people actually really mean when they say "I will look at PA for further signs/confirmation"?

Is it possible to fully understand how a market is moving and decipher the chart candles in order to read what they really mean?

In this article, we are going to take a deeper look at price action but particularly at **Candle Price Action**. Before we dive in, I'd like to take a moment and give some credit to the Doctor and FX.Sniffer and IF who's work and teachings about "advanced" PA inspired me a lot and took my understanding to a higher level.

Let's get started...

So... What does Candle PA really mean?

The words say it all: The action of price translated into a candle...I hear some of you say "but wait a minute, if this is true, does this mean that Candle PA is in fact a sort of lagging indicator ? "

Maybe it is considered as "lagging " to some people but in my eyes, it does show you who is active , the Bulls or the Bears, it shows you if there is some interest to take price higher/lower, if the entry you are eye balling is the best one and lots more.

However, not every candle that looks the same in terms of shape or length can be interpreted in the same way. To give you an example, I'd say that a Big Momentum Candle can actually mean 2 different things; A clear activity and true willingness to take price higher/lower or a fakeout to make you jump into a trade and be slaughtered

How do we know whether price is wanting to fake us or not?

Well, looking at the whole picture can help us understand what price is telling us. One of the most important thing to look at is the location of where certain candle forms.

What we want to do is see how the candles are closing at Key Levels and old Decision Points. Click here to view FXS's article about [Key Levels](#) if you want to learn how to locate them.

The Candle Close

Looking for trades elsewhere than around previous decision points and key levels is not a wise choice and it will hurt you if you decide to take entries anywhere else.

A candle close at a DP or Key level will help us determine what price is willing to do, push through or bounce back. It takes a lot of money to push price through and close above a Key level. Only Big Money can do this and if they do it than it's certainly for a reason.

Let's look at charts and see if we can find some examples.

Black line is a Key resistance on this chart and The blue lines show a previous Supply/DP

This Big Candle would have lots of people go long but look at where it closed... Just below the lower edge of our Supply zone = What I call a "Fakey"

And then this candle, it took some buyers at the lower black dashed line but where did it close? Below the Supply and below prev bar high and close...





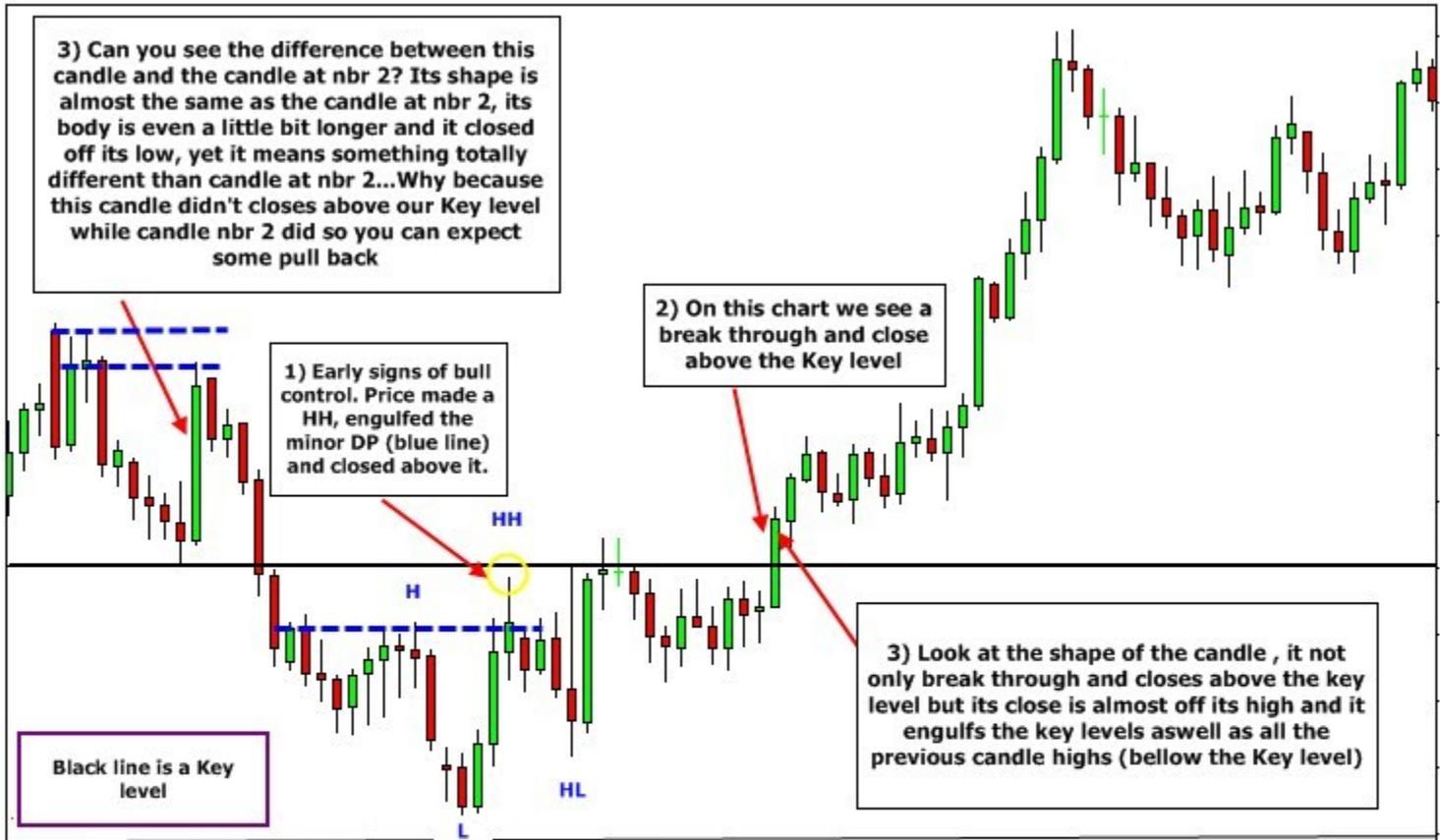
3) Can you see the difference between this candle and the candle at nbr 2? Its shape is almost the same as the candle at nbr 2, its body is even a little bit longer and it closed off its low, yet it means something totally different than candle at nbr 2...Why because this candle didn't close above our Key level while candle nbr 2 did so you can expect some pull back

1) Early signs of bull control. Price made a HH, engulfed the minor DP (blue line) and closed above it.

2) On this chart we see a break through and close above the Key level

3) Look at the shape of the candle , it not only break through and closes above the key level but its close is almost off its high and it engulfs the key levels aswell as all the previous candle highs (bellow the Key level)

Black line is a Key level





Where to look for candle close?

Using the Higher Time Frame close as a lead is extremely powerful. Once we have an HTF close, we can switch back to a lower Time Frame and look for an entry.

The Wick & Tail

Beside the candle close, the tail and wick of a candle also tell us what is going on in the charts.

A clear wick that pierces a Resistance/Supply and close below it is a potential sign of Selling

A clear tail that pierces a Support/Demand and close above it is a potential sign of buying

Note, that I'm not talking about candle colors here because the only thing that has importance to us is the wicks/tails and close at Key levels.

Why do I say "Potential" sign of Selling/Buying? Because again the location is extremely important but the whole picture is even important too. Maybe you'll spot the perfect looking candle PA on the chart but if there is not a lot of room for price to move then the setup might not work.

So to recap, we know that the location, close, wick/tail as well as the whole picture is what we need to look at when doing our analysis.

Ask yourself this questions:

- Where is price trading at the moment? Are we at a Key level, Supply/Demand DP ?
- How did price close? Above/below a Key level?
- Was there a tail/wick on the candle and how and where was its close?
- Was there a momentum candle and how and where was its close?
- Was there a bearish/bullish looking candle that actually really meant the opposite (what I call a fakeout)
- Is there enough room for price to move? Is there a key level or previous decision point near the potential entry?

These are question that you should ask yourself when looking for trade setups...

Bar By Bar analysis

A bar by bar analysis can be very usefull when looking for trend entries. Here again, it's not something difficult to do , just look at what price is really doing, where and how it closes is also applicable.

Let's look at the charts below and find some examples.



1) So the HTF just closed above the key level and this candle at 1 now closed above the HTF close but did not break the high of prev candle. Potential sign of buying but we wait.

2) This candle made higher high than prev one but did not close above it. In fact it closed into the candle body of nbr 1, we still wait.

3) This is what most retailers would call a bearish candle but look how it closed...not below candle 1 and it also failed to pierce the key level. In fact this just took a few sellers from a LTF decision point but as its body is so tiny and the close is poor, it's a sign that sellers are not interested.

4) Not really relevant except that the close was a pip above prev candle.

5) This one is an interesting candle; its tail pierced the Key level and closed above it. We see that this support is holding. An aggressive entry when the candle closes is an option.

6) This is a nice candle as well. We have a tail, not very big but ok, the close of the candle is above the prev 5 candles and it closed above the minor LTF DP at blue dashed line = Support is holding and buyers are present = potential entry

7 and 8) Closed above 6 but the candle at 8 closed also above all the highs of candles 1 through 6. After that price took off North.

Comments:

What you have to keep in mind is that it's important to have HTF "reasons" to look for a trade and then look at what the candle PA is telling you on lower Timeframes. Looking for just candle PA is not relevant, it's the combination of both that gives us clear signs.

Looking at LTF to find a trade entry will help you find an entry very near the HTF key level but all the candle PA I just explained is applicable to any pair, any TF. You choose which TF suits your appetite the best.

FAKEOUTS

For a better understanding of liquidity please refer to the [Order Flow](#) and [Momentum Away/Liquidity Gap](#) articles.

What is a Fakeout?

Fakeout is also known as False Breakout, Shakeout, Sellers/Buyers/Bull/Bear Trap, Stop Run, Stop Hunt and Liquidity Spike. It's a search of liquidity followed by a change in direction.

Why does it happen?

There are different scenarios and situations of why it happens. However, the main reason behind it is to create liquidity in an illiquid market - by big funds, to test a level's strength.

To elaborate more on that, a short example is required:

Let's say price of a financial instrument is rising to a value of significant history at 100 (resistance level) where the majority of traders will either buy a breakout with stops below 100 or sell on rebound with stops above 100. The price moves higher to 105 triggering on its way seller's stops and buyer's orders, but price doesn't get any higher and reverses back to 100 before dropping lower to 80.

So what has happened here?...Big funds were planning to sell from 100, but, due to significance of the level, so were the other market participants. So if the whole market is selling at 100 then there are no buyers (lack of liquidity). If pro money sold at 100 they would get a bad fill as price would quickly move away from their entry. In order to get buyers for their sells, they must create liquidity, by moving price a bit higher above 100, to induce buyers to jump in as well as triggering seller's stops which add to the buying pressure. This will help fill their mass sell orders.

At the same time they're able to test if the level holds against the buying pressure. The presence of other bullish big funds would've moved price up with momentum.

When pro money started selling, price fell below the 100 triggering buyer's stops and new sellers jumped in, all adding to the selling momentum.

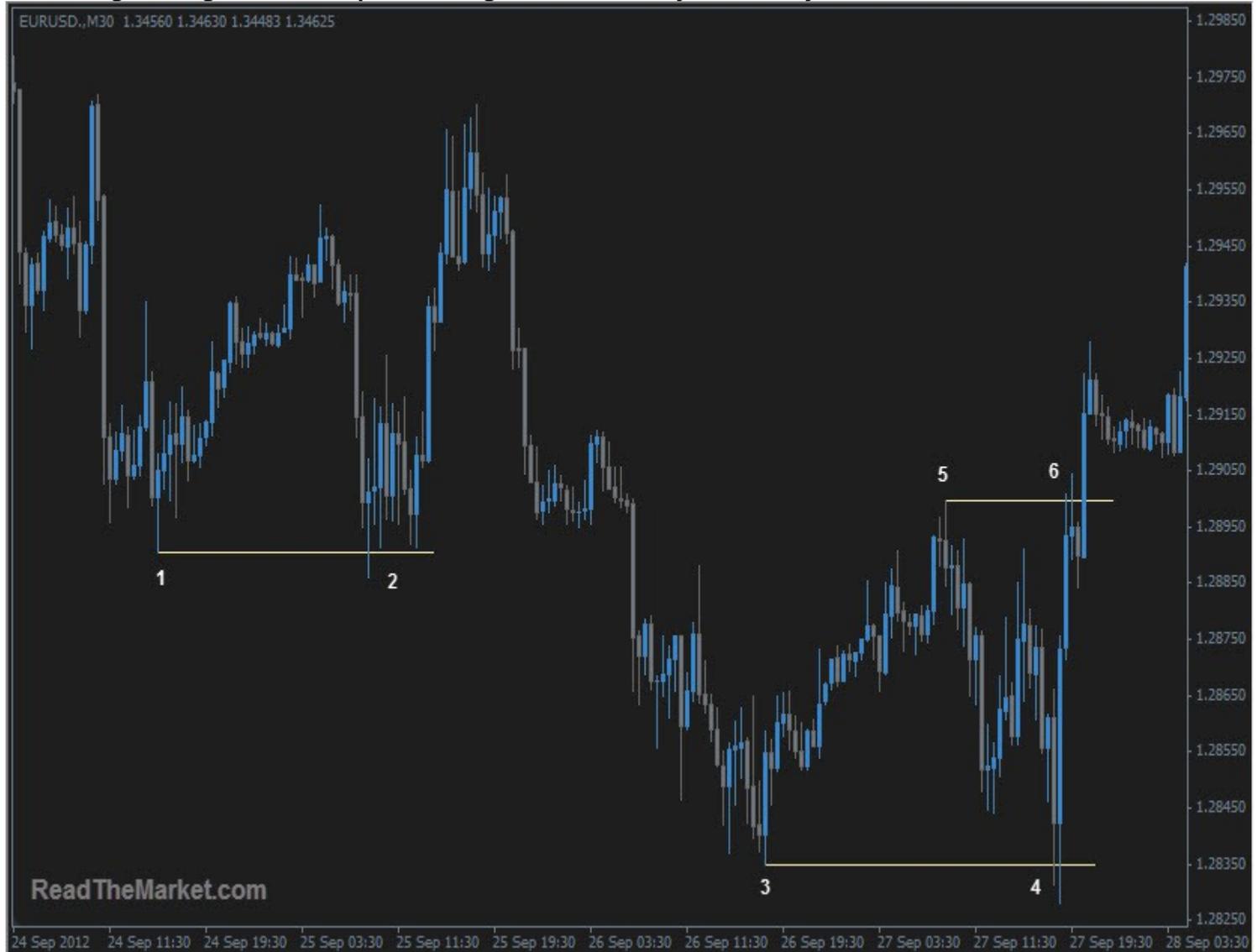
Where does it happen?

Around significant areas where stops are placed, and breakout traders await to buy/sell, at unconsumed Supply/Demand Zones, at Stacked Supply/Demand Zones, and at the end of a Compression into Supply or Demand.

How to identify a Fakeout?

It can be identified in different ways, such as candle close (or close of two combined candles) in relation to a previous Swing High/Low, or a Support/Resistance, or a Key Level.

Now let's go through some examples showing the different ways to identify a Fakeout:



At [1] price created a swing low then moved up and returned back at [2] in a curvy shape breaking through the swing low level but failed to close below and this is a Fakeout, next price consolidated above the level retesting if level will hold then moved up.

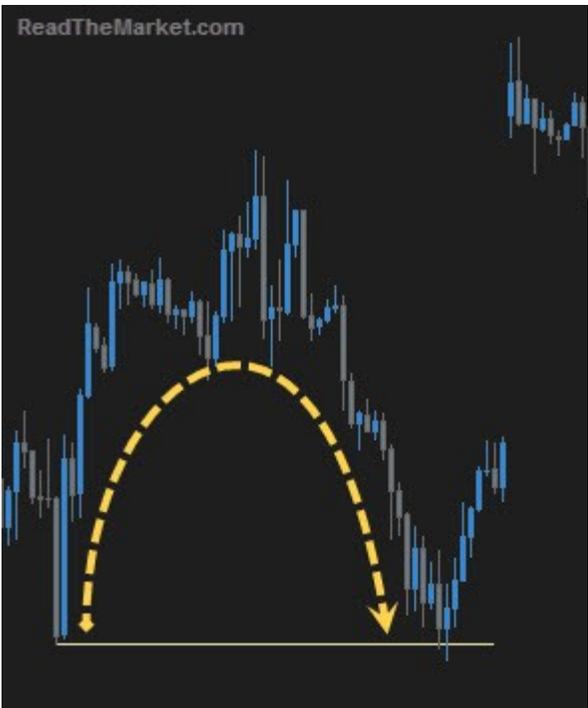
At [3] another swing low and a return at [4], considering the space and time price took to return at [4] and the acceptable curved shape, price created a Fakeout followed by a retest and a second Fakeout before moving up.

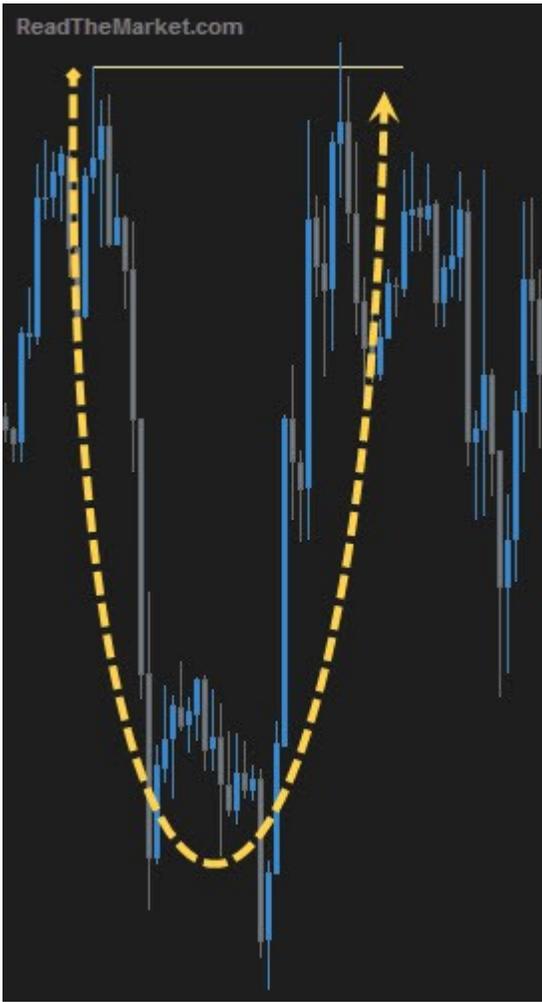
At [5] a swing high and the return at [6] wasn't a good acceptable curvy shape, the Fakeout at [6] was to test if level will hold and eventually it was broken.



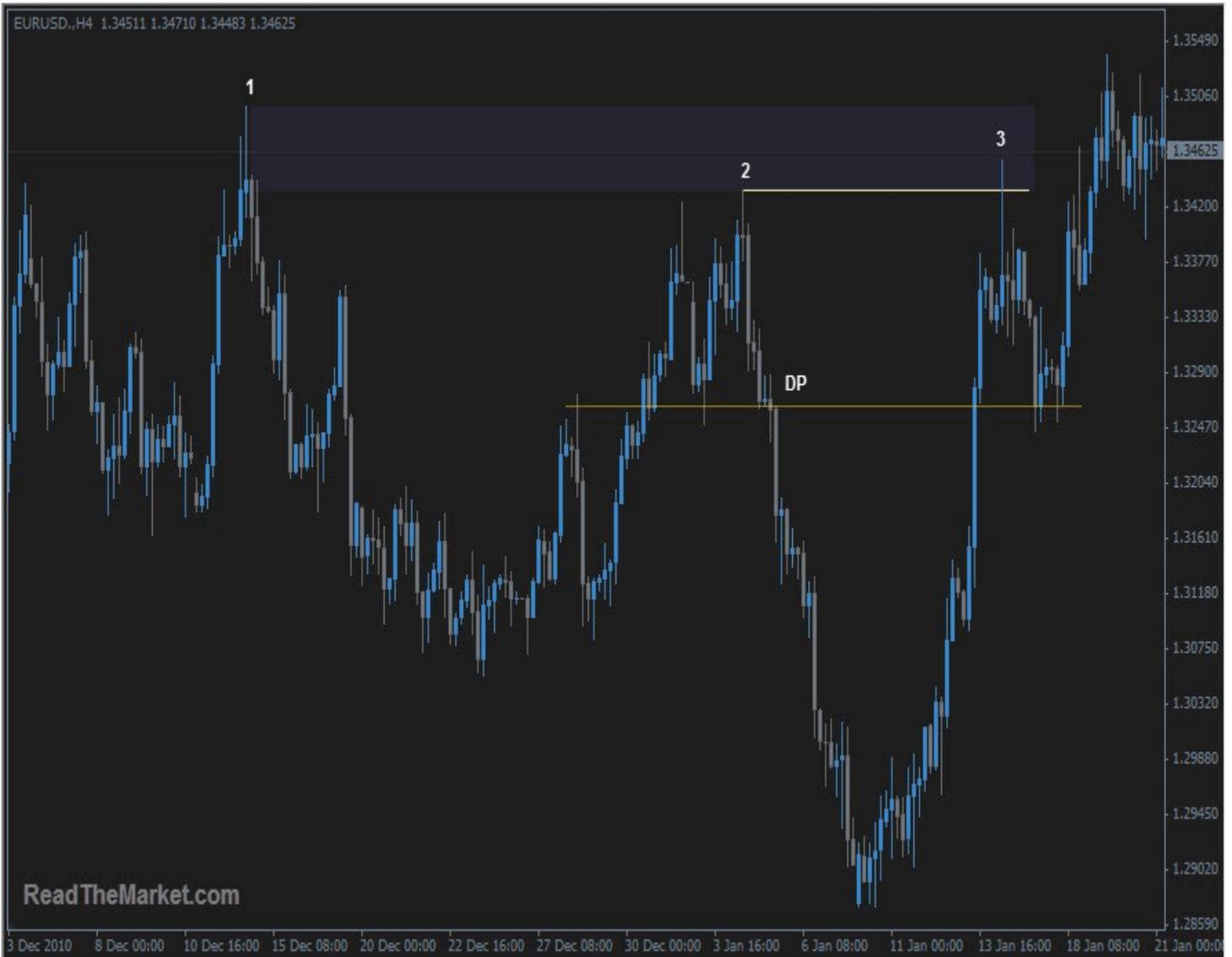
You can see two Fakeouts, one of a swing high level and another of a swing low level. Both cases had an acceptable curvy return to test the swing levels and without having to retest the Fakeouts price has changed direction at both levels.

Before continuing the examples let's first elaborate more about the curvy shape. The main factors in a curvy shape to be taken into consideration are time & space which price took to return to a swing point. The efficiency of the shape itself could vary from a perfect arc to a triangle. Here are some examples of a perfect curvy shape;

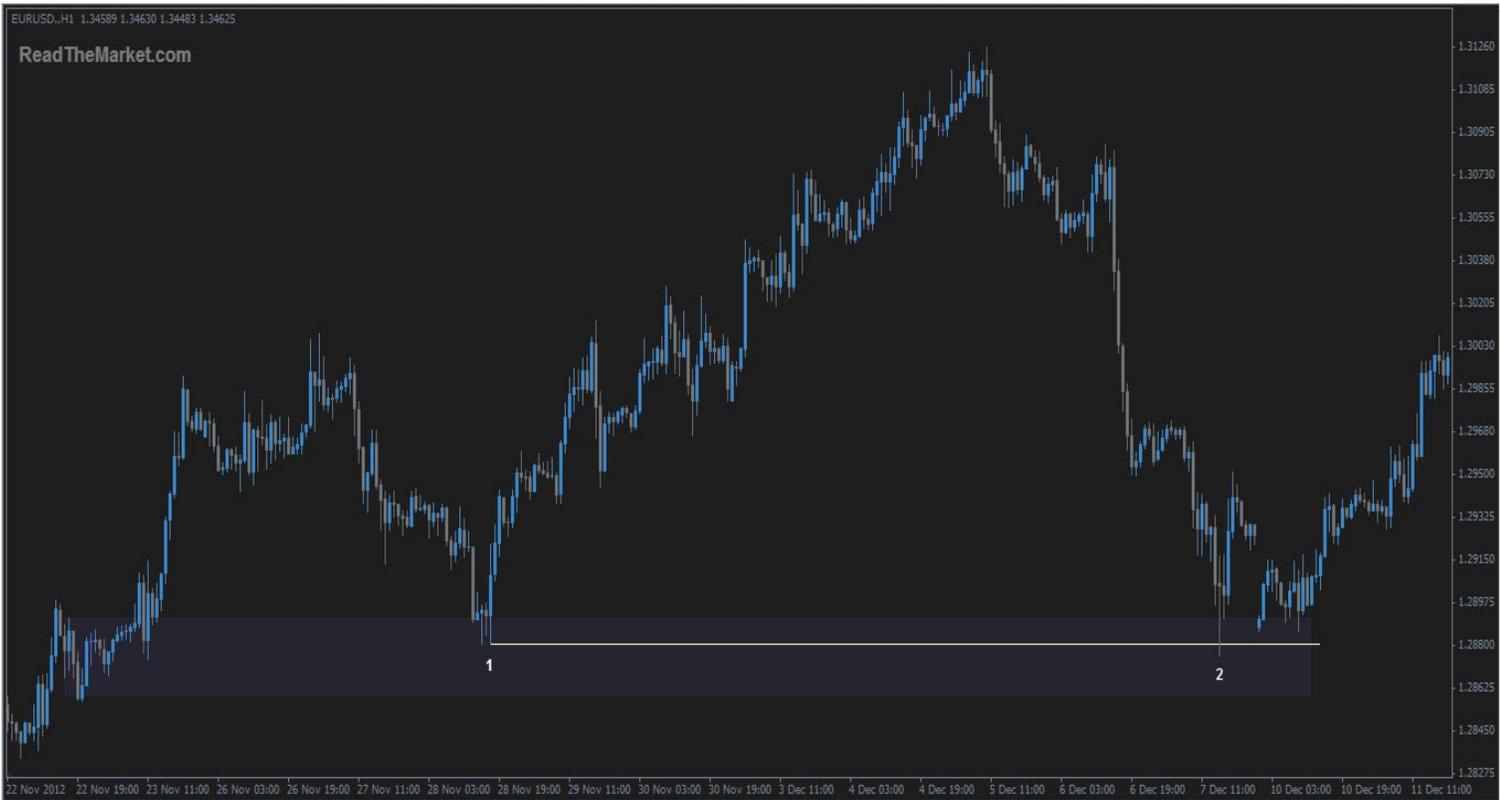




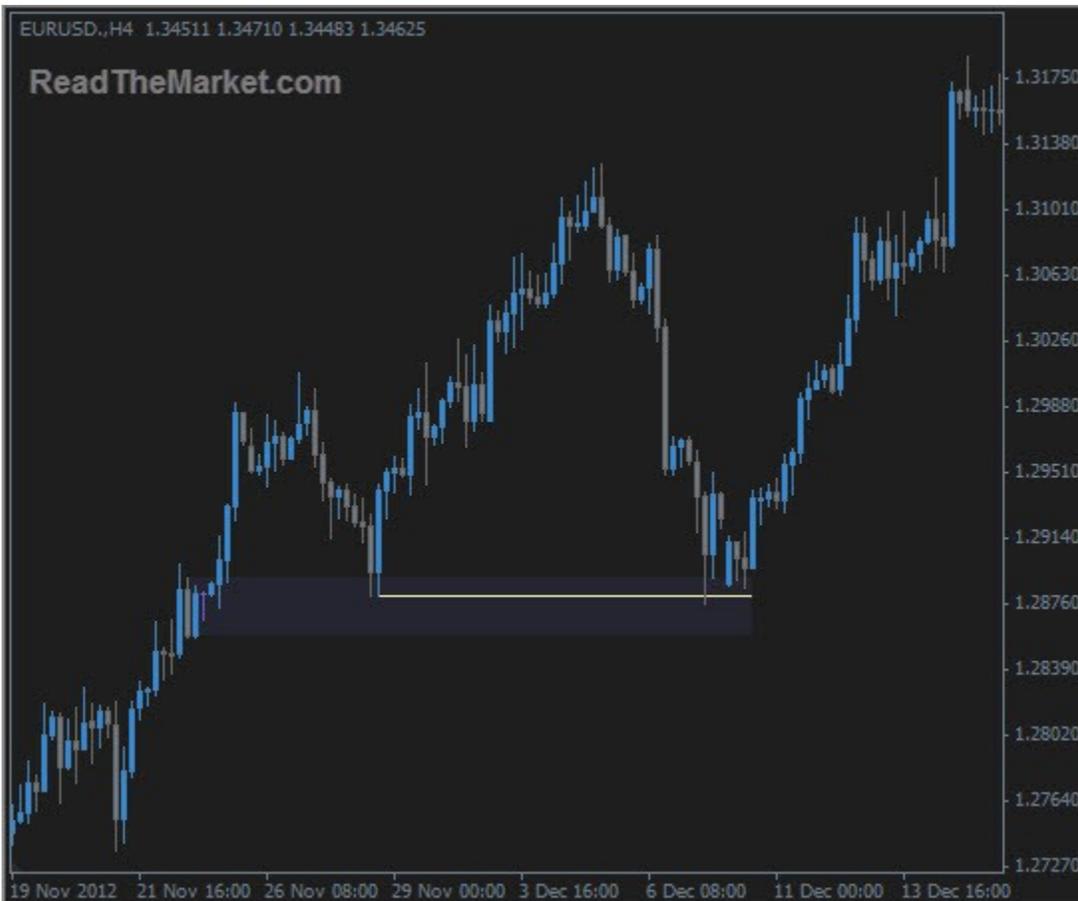
Now to continue with the Fakeout examples;



Price created a supply zone at [1] and returned at [2] creating a lower high before dropping and returning in a curvy shape for a 2nd visit at [3] creating a Fakeout of preceded swing high from [2] and into the supply followed by a drop in price. Considering the time frame; the move down was effective until it flipped from an S/R flip level and an ignored supply DP (Decision Point).



Price came back in a great curvy shape for a 2nd visit into demand at [2] creating a Fakeout of preceded swing low from [1] and a retest followed by a rally in price.



The same example zoomed out to the next higher time frame for a better visual of the DP (RBR) demand zone.



A demand zone at [1] and a 1st visit at [3] and a Fakeout of a preceded swing low from [2] followed by a change in direction. Notice the space and time between [2] & [3], not so big but still the curvy shape from [2] to [3] is considerable.



The same example zoomed out to the next higher time frame to show the difference between time frames when spotting the curvy shape.

In the following two examples you'll notice additional ways to identify a Fakeout:

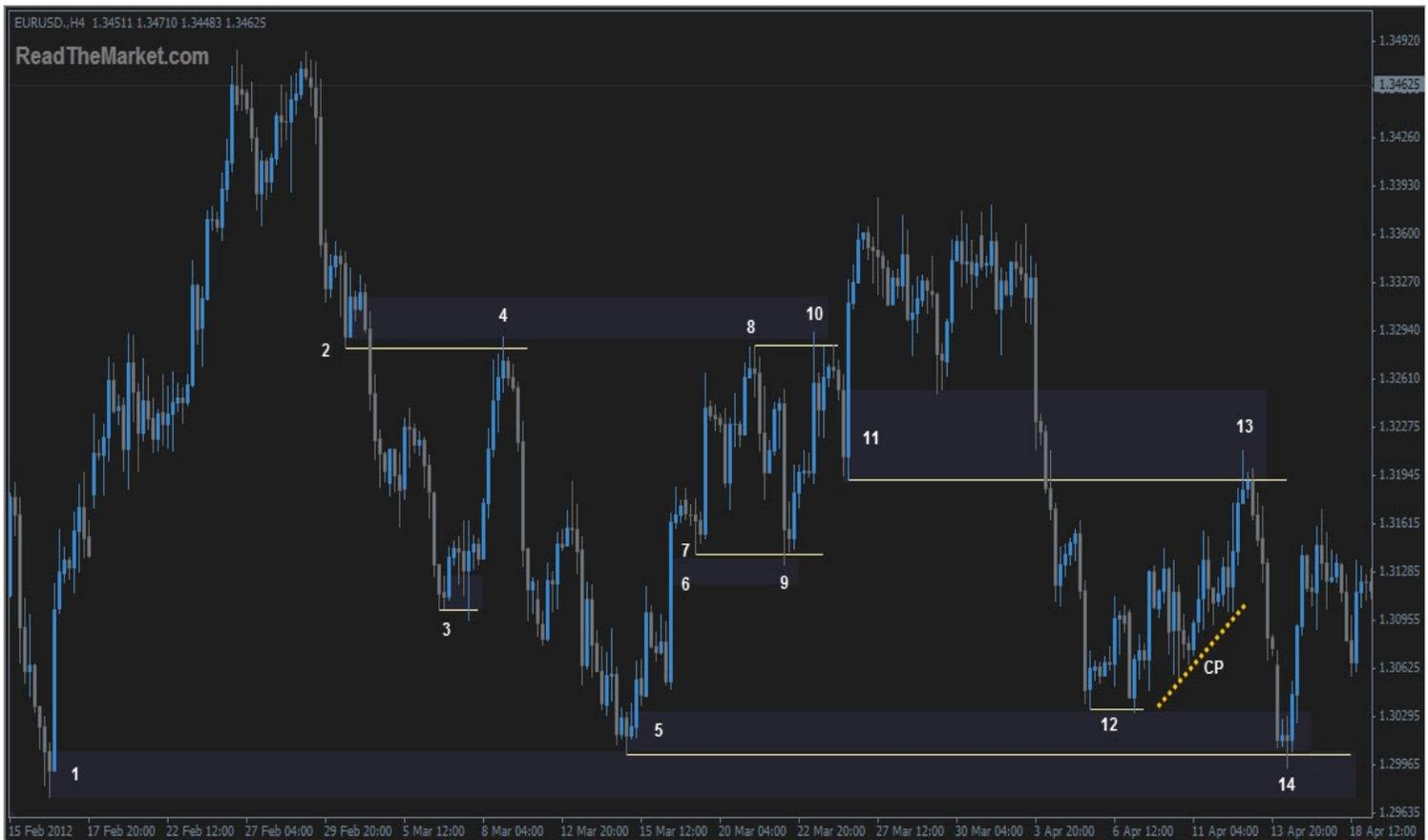


At [1] a demand zone that was ignored thus becoming supply, price dropped forming a support at [2] and an ignored demand pocket followed by a drop and retest of broken support becoming S/R flip and a Fakeout at [3] into ignored demand followed by another drop in price.

At [4] a demand zone was created followed by another demand at [5] and a rally to [2] a 1st visit to the ignored demand from [1] (now supply) then price compressed down into the fresh demand at [5] creating a Fakeout at [6] followed by a retest and a rally to [7] for a 2nd visit into supply and a Fakeout of the preceded swing high from [2] followed by a retest of the Fakeout and change in direction. Note that ignored demand at [1] is totally consumed now and [7] is a fresh supply zone.

At [8] we have a swing high and at [9] a DP (RBR) demand followed by a rally to [10] and a 1st visit into supply from [7], price moved down to [11] into demand from [9] creating a Fakeout into support from [8] followed by a move up to [12] back into supply for a 2nd visit and a Fakeout of the preceded swing high at [10] followed by a change in direction.

At [13] price returned back to the demand from [4] digging deep into it and the spike that broke through the zone with a close inside was a clear sign of consumption.



In this example we'll speed up the process and point directly at the Fakeouts;

At [2] a support point and a DBD (supply) followed by a drop in price to [3] creating a swing low and a Fakeout (the curvy shape could be seen on a lower time frame). Price returned to supply at [4] creating a Fakeout of the broken support point from [2] followed by a change in direction.

At [9] a Fakeout of the support from [7] and into a LTF DP (RBR) from [6] followed by a change in direction.

At [10] a Fakeout of preceded swing high at [8] and into supply from [2] followed by a retracement.

At [12] a tiny Fakeout of preceded swing low and into demand from [5] followed by a compression up. Note here that recent price reaction to demand from [5] makes of it a stacked demand above the lower demand from [1].

At [13] compression into ignored demand from [11] turned supply and a Fakeout of resistance (LQ Spike) followed by a change in direction.

At [14] another visit to stacked demand zones and a spike into the lower demand zone as well as a Fakeout of the swing low from [5] followed by a change in direction.

Proof of market manipulation from the Market Wizards Book:

Ref: Market Wizards - Paul Tudor interview;

That sounds like a general character-building lesson. What about specifics regarding trading?

"Tullis taught me about moving volume. When you are trading size, you have to get out when the market lets you out, not when you want to get out.

He taught me that if you want to move a large position, you don't wait until the market is in new high or low ground because very little volume may trade there if it is a turning point.

One thing I learned as a floor trader was that if, for example, the old high was at 56.80, there are probably going to be a lot of buy stops at 56.85. If the market is trading 70 and 75 offered, the whole trading ring has a vested interest in buying the market, touching off those stops, and liquidating into the stops—that is a very common ring practice. As an upstairs trader, I put that together with what Eli taught me. If I want to cover a position in that type of situation, I will liquidate half at 75, so that I won't have to worry about getting out of the entire position at the point where the stops are being hit. I will always liquidate half my position below new highs or lows and the remaining half beyond that point."

Ref: Market Wizards - Monroe Trout interview;

What else did you learn on the floor?

I learned about where people like to put stops.

Where do they like to put stops?

Right above the high and below the low of the previous day.

One tick above the high and one tick below the low?

Sometimes it might be a couple of ticks, but in that general area.

Basically, is it fair to say that markets often get drawn to these points? Is a concentration of stops at a certain area like waving a red flag in front of the floor brokers?

Right. That's the way a lot of locals make their money. They try to figure out where the stops are, which is perfectly fine as long as they don't do it in an illegal way.

Given that experience, now that you trade off the floor, do you avoid using stops?

I don't place very many actual stops. However, I use mental stops. We set beepers so that when we start losing money, a warning will go off, alerting us to begin liquidating the position.

What lesson should the average trader draw from knowing that locals will tend to move markets toward stop areas?

Traders should avoid putting stops in the obvious places. For example, rather than placing a stop 1 tick above yesterday's high, put it either 10 ticks below the high so you're out before all that action happens, or 10 ticks above the high because maybe the stops won't bring the market up that far. If you're going to use stops, it's probably best not to put them at the typical spots. Nothing is going to be 100 percent fool proof, but that's a generally wise concept.

Ref: Market Wizards - Richard Dennis interview;

Can you give me an example of how the lack of real world experience would hurt the researcher?

As an example, assume I develop a mechanical system that often signals placement of stops at points where I know there will tend to be a lot of stops, in the real world, it is not too wise to have your stop where everyone else has their stop. Also, that system is going to have above-average skids. If you don't understand that and adjust the results accordingly, you are going to get a system that looks great on paper, but is going to do consistently poorer in the real world.

Ref: Market Wizards - Bruce Kovner interview;

Let's say you do buy a market on an upside breakout from a consolidation phase, and the price starts to move against you—that is, back into the range. How do you know when to get out? How do you tell the difference between a small pullback and a bad trade?

Whenever I enter a position, I have a predetermined stop. That is the only way I can sleep. I know where I'm getting out before I get in. The position size on a trade is determined by the stop, and the stop is determined on a technical basis. For example, if the market is in the midst of a trading range, it makes no sense to put your stop within that range, since you are likely to be taken out. I always place my stop beyond some technical barrier.

Don't you run into the problem that a lot of other people may be using the same stop point, and the market may be drawn to that stop level?

I never think about that, because the point about a technical barrier—and I've studied the technical aspects of the market for a long time—is that the market shouldn't go there if you are right. I try to avoid a point that floor traders can get at easily. Sometimes I may place my stop at an obvious point, if I believe that it is too far away or too difficult to reach easily.

To take an actual example, on a recent Friday afternoon, the bonds witnessed a high-velocity breakdown out of an extended trading range. As far as I could tell, this price move came as a complete surprise. I felt very comfortable selling the bonds on the premise that if I was right about the trade, the market should not make it back through a certain amount of a previous overhead consolidation. That was my stop. I slept easily in that position, because I knew that I would be out of the trade if that happened.

Talking about stops, I assume because of the size that you trade, your stops are always mental stops, or is that not necessarily true?

Let's put it this way: I've organized my life so that the stops get taken care of. They are never on the floor, but they are not mental.

THE CANCAN

Very often price will move into, or even better, break out of a zone with strong momentum, creating a pole.

Usually a pole will have a flag on top, gathering orders for price to advance.

But if the flag breaks back into the pole, this is a significant turn in value.

A CanCan can often occur at such an event.

Price moves hard, flags briefly, and moves back quickly with a **Liquidity Spike**. This liquidity spike will mean there may very well be orders left to be filled at the edge of the flag, so you'll very often see **compression** back towards it, with extra orders being hidden, so that when price hits the cap, it can shoot back through the compression and on to the base of the pole.

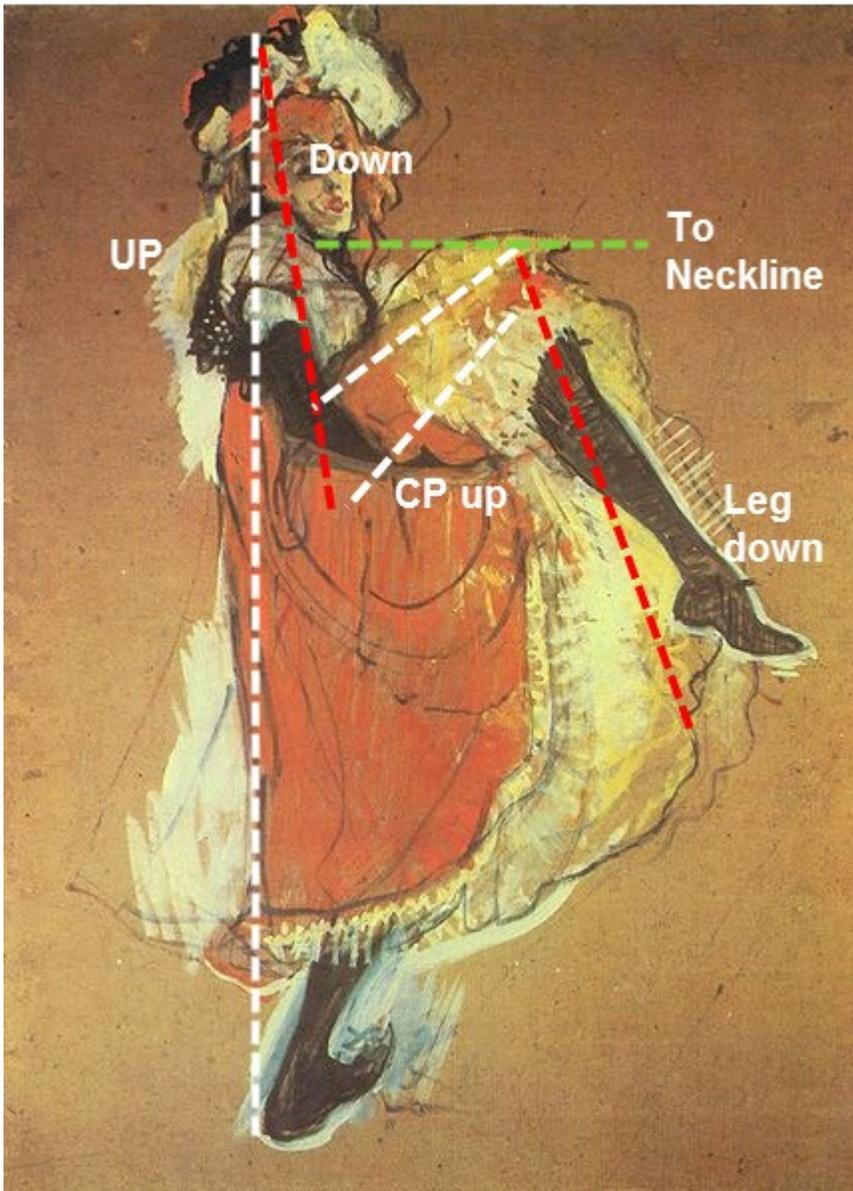
Here's an example



and another



and here's why it's called a cancan. Thanks Henri 😊



TRENDLINES

In this article, I will discuss how trend lines can be combined with supply and demand zones to confirm (or fine tune) an entry within a supply and demand zone. To explain this idea, I will use the charts in Mel's [Supply and Demand](#) article.

Based on the principle of supply and demand, we are looking for an entry long within a demand zone and an entry short within a supply zone. As Mel states "*it is up to the trader to decide whether they want to take a 'Touch Trade', trading the touch of the level/zone or wait for confirmation PA when price arrives at the level/zone.*"

As an alternative to using PA to confirm a trade when price arrives at a zone, or as additional supporting confirmation, a trend line can be used. Although this can work well, as Mel mentions in her article, "*there is nothing 100% in trading.*"

The chart below is from the Mel's article and shows an example of trade short on the first visit back to a supply level.



The following chart shows how a trend line (lines in red) can be used to help confirm (or fine tune) the entry. In this instance, price stopped a couple of pips from the lines, although it shows the idea.



The chart below is also from the Mel's article and shows an example of trade long on the first visit back to a demand level.



The following chart shows how a trend line (line in red) can be used to help confirm (or fine tune) the entry long.



The chart below is also from the Mel's article and shows an example of trade long at a demand level.



The following chart shows how a trend line (lines in red) can be used to help confirm (or fine tune) the entry long.



The chart below is another example.



The chart below adds a second trend line to the chart to show that there are sometimes more than one line which can be added.



FIBONACCI LEVELS

WHAT IS A FIBONACCI SEQUENCE?

This sequence is simply a series of numbers in which each term is the sum of the 2 numbers preceding it. The first ratios are : (1,1,2,3,5,8,13,21,34,55,89,144...). These numbers are recursive. There are also the Golden Ratios and those represent the measurement of any number to the succeeding higher number. For example $34 : 55 = .618$ and $89 : 144 = .618$

GOLDEN RATIO

The Golden Ratio is used in lots of different areas. It, for example, describes the proportion of many of nature's designs. If you measure your height starting at your feet to your belly button, you will get 61,8% of your total height... Funny huh?

The ratios are also used in the Financial Markets because the market uses the same mathematical base. The most common used ratios are the 38,2% , 50% and the 61,8 .

FIBONACCI RETRACEMENTS

Lots of traders look at Fibonacci retracements in order to find a potential trading entry. They rely on a tool and make decisions based on it. Some traders think that support or resistance can be created because of a Fibonacci level. RTM traders, however, know the laws of Supply & Demand. We do not believe that support and resistance are created from a Fibonacci level, therefore most of the traders here do not use the Fibonacci retracement as an entry signal. It is just a measurement tool not a magic entry producing machine, and if used should only be in confluence with Supply/Demand levels.

HOW TO CALCULATE THE FIBONACCI RETRACEMENTS?

I could make a very long article just talking about "how to calculate a Fibonacci Retracement" manually but I honestly think that it is useless because most of the actual trading platforms have a Fibonacci Tool incorporated in there software. The tool will automatically calculate everything for you . You will only need to select the swing points that you would like to measure. The Fib Tool can be used on any chart and on any TimeFrame.

Let's take a look at the picture bellow for an example.



WHEN FIBONACCI FAILS....

Do you remember when I said that Fibonacci was just a measurement tool? Well be aware that a Fibonacci level can fail; price will not always reverse at the Fibonacci golden ratio. This proves again that price reversal occurs because of the big orders that are left at the Supply & Demand levels and not because of a Fib Level.

Look at the picture below to see a failed Fib level.



FIB EXTENTION:

Fibonacci extensions are also a part of the Fib Retracement Tool. The extensions are in fact the levels that are drawn beyond the standard 100% level. They are used by a lot of traders to find Target Points. The most used levels are 161,8% , 261,8% and 423,6% . For me extensions are just the same as retracement level; they are all about measurements not about entry or exit signals...

You can use it if you like to, to add confluence to your analysis.

In order to know where the extensions are for a particular swing point, draw the fib tool in the opposite way as the retracement tool. In this case you would measure a bullish swing from High to low and a bearish swing from low to high.

Below is an example on a price chart.



FIB EXPANSION

The Fibonacci Expansion tool is also one that is available on MT4. It is generally used to measure potential target points. While Fib Retracements show measurement of an ABC wave pattern (the swing high (A) , low (B) and the retracement (C).) Fib Expansion will measure and "predict" where wave C will end.

Bellow is an example on how to measure Fib Expansions.



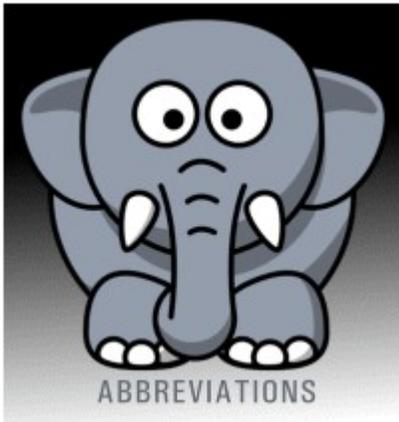


[1] LEONARDO DE CAPRIO FIBONACCI

Leonardo Pisano Bigollo (c. 1170 – c. 1250) also known as Leonardo Fibonacci, Leonardo Pisano, Leonardo Bonacci was an Italian mathematician who introduced Hindu–Arabic numeral system in Europe with the publication of his book "Book of Calculation" in 1202

Leonardo Fibonacci best known to most with a number sequence which was named after his name as Fibonacci numbers. He didn't discover the Fibonacci numbers even though named after him. The number sequence was already known to Indian mathematicians from 6th century onwards but it was Fibonacci who introduced it to the west.

ABBREVIATIONS



Here are some abbreviations that you may find used in the site.

A - as a prefix - Ascending

AA- Adam and Adam

ACH - Ascending Channel

AE - Adam and Eve

AWG - Ascending wedge

BE - Break even

BE - As a prefix - Bearish, example: BEACH - Bearish ascending channel

BEB - Bearish engulfing outside bar

BEFL - Bearflag

BH - Bar highs
BNR - Bump and run
BO - Breakout
BOPA - Breakout, pullback and advance
BOPB - Breakout + pullback
BR - as a prefix - Broadening
BRN - Big round number
BU - As a prefix - Bullish
BUB - Bullish engulfing outside bar
BUFL - Bullflag
CH - Channel
CN - Continuation
CP - Compression
CPLQ - CP followed by Liquidity
CWH - Cup with handle
D - Demand
DBB - Double Bottom
DBD - Drop base drop, descending pole flag pole
DBR - Drop base rally
DBHLC - Double Bar high lower close
DBLHC - Double Bar low higher close
DBT - Double top
D1 - Daily
DD - Drawdown
DM - Diamond

DMA - Direct Market Access
DP - Decision Point
DIV - Divergence
DS - Daily supply
DS - as a prefix- descending
DSCH - Descending channel
DSWG - Descending wedge
DTL - Demand trend line
EA - Eve and Adam
EE - Eve and Eve
EX - Exhaustion

FL - Flag Limit
FL - As Suffix - Flag / Consolidation
FO - Fakeout
FTA - First trouble area
FTB - First time back. Followed by 2TB, 3TB etc.

FTR - Failure to return. Also Hook, Finger
HB - Horn Bottoms

HH - Higher High
HL - Higher Low
HNS - Head and shoulders
HT - Horn tops
HTF - Higher timeframe
HTFL - High and tight flag (amazing results!)
IB - Inside bar
Ib4 - Inside 4 bar that is the smallest bar of the previous 3 bars
ILR - Island reversal
INV - Inverted
LH - Lower High
LL - Lower Low
LTF - Lower timeframe
M1 - 1 minute
M2 and so on
MMD - Measured move down
MMU - Measured move up
MN - Monthly
PA - Price action
PAZ - PA Zone
PB - Pin bar
PFP - Pole, flag, pole
PIE - Price Is Everything thread
PPZ - Price pivot zone
RN - Round number
RBD - Rally base drop
RBR - Rally base rally, ascending pole flag pole
RT - Retrace/Retracement
RTP - Romancing the Price thread
RV - Reversal
S - Supply
Shampoo - see HNS
SL - Stoploss
SR - Support/resistance
SRF - SR Flip
STL - Supply trend line
TG - Target
TL - Trend line
TP - Take profit
TPP - Take partial profit
TR - Triangle
TT - Touch trade
TWB - Tweezer bottoms
TWT - Tweezer tops
W1 - Weekly

WD - Weekly Demand
WG - Wedge
WRB - Wide Range Bar
