# FINDING SUCCESS IN FOREX TRADING

Rick Wright

**Hello traders!** The following articles are just a few of the Lessons from the Pros newsletters that I've been writing for Online Trading Academy since January of 2011. Currently, I am a home-based trader of the four main asset classes: forex, futures, options, and equities, and also an instructor about one week a month for Online Trading Academy.

Since before my start in this industry as a broker in 1992, and then beginning as a trader in 1997, the markets have fascinated me, and I have always wanted to "spread the word" about this great job that trading can be.

In the following articles, you will find the basics of what the foreign currency market is, what we teach at Online Trading Academy, and most importantly, how to notice and control some of the mistakes that beginning traders make. While these articles may be basic for some of you "experienced" traders out there, I've found that we must always continue to learn in this journey we call trading. If you aren't learning and improving, you are stagnating. I hope these few articles inspire you to learn more about the forex market and attend one of our classes! Happy Trading!

**Rick Wright**
Award winning author, trader, and instructor

# MY FAVORITE MARKET

Hello traders! This week I'd like to introduce the spot forex market to anyone considering a new or even a first market to trade. I'll do a basic intro to what the spot market is, and then give a few reasons why I think everyone should trade this terrific market.

First of all, what is the spot forex market? Investopedia defines it is as: "The current price at which a particular security can be bought or sold at a specified time and place. A security's spot price is regarded as the explicit value of the security at any given time in the marketplace. In contrast, a securities futures price is the expected value of the security, in relation to its current spot price and time frame in question." What that really means to the spot forex trader is that you are literally exchanging one currency for another, right here and right now, on the spot. You can trade forex on the futures market, but prices will be slightly different as the futures market trades in contracts that have time value built into them as well.


The main difference in the spot forex and futures forex market is the value of the smallest move in the market. Depending on your experience level, capital, and time frames you trade from, this can be a significant difference. In the spot market, our minimum move is commonly called a "Pip", or "percentage in point." In the futures market, the smallest move is called a "tick." One of the odd things about the spot forex market is that not every currency pair has the same value for every minimum move. Your broker will give you a list of what the values are, even before you place a trade so you can adjust your position sizing to follow your risk management rules.

In the spot market, this move would have made you about 73 pips. In this currency pair, the EURUSD, the currency on the left side, is called the "base" and the currency on the right is called the "quote." The prices you see on the left side of the chart are actually how many US dollars, cents, and fractions of a cent that it take to buy one of the base currency. As the chart prices move up, it takes more and more of the quote currency to buy the base currency (the base is getting stronger), and as the chart moves down it takes less and less to buy the same amount of the base (the base currency is getting weaker).

> **"Another great reason to trade the spot forex market is the fact that it is open for 24 hours a day**

In this 73 pip move, how much would you have made? Well, it depends on your position size. One of the most important differences in the spot market vs. any other market you want to trade is the customizable position sizing. In the spot market we have three basic types of positions sizes: standard lots, mini lots, and micro lots. Very generally speaking, a standard lot will cost you about $2,000-2,500 to trade, and each pip will be worth about $10. Mini lots will cost about $200-$250, with the pips being worth $1, and micro lots will cost about $20-$25, with pips being worth $.10. Yes, you can trade multiple lots of any of those! In the previous chart, if you had placed a one standard lot trade, the risk would have been about 22 pips, with a reward of about 73-which easily fits our recommended reward to risk ratio of 3:1. You would have risked $220 to make $730. With one mini lot, just drop the zero, so the risk would have been $22 to make $73. In the futures market, ticks are commonly worth about $10, with little or no option of trading smaller size.

In every Online Trading Academy class that I teach, there is a nice diversity of experience levels between the students. Some have never placed a trade before, which is terrific! They have no bad habits to unlearn! Some have been trading for a while, and aren't happy with their results in the market. The longer someone has been trading, very often the more bad habits have been stuck in their head. This is often difficult to get past, as very often they will attempt to continue using whatever combination of indicators they have been taught to use in the past-which are the same indicators that have kept them from being truly profitable in the market. Bad habits are hard to break! The main point of the position size difference is this: in the spot market, you can trade with VERY small amounts of money with very small risk as you learn to trade. When you are consistently profitable risking (for example) $20 on a trade, move up to two minis where you might be risking $40. Then $60, $80, etc. etc. Many forex brokers will let you open a trading account with just a few hundred dollars! Try trading stocks or futures with that little money, and you will find out how difficult it is to trade for a living!

Another great reason to trade the spot forex market is the fact that it is open for 24 hours a day, from Sunday afternoon through Friday afternoon. If your current schedule keeps you from watching the stock market during its regular hours – 9:30 am Eastern time through 4pm Eastern – the spot market allows you to trade when you can. As I write this newsletter at 5am, the EURUSD had moved 60 pips since 3am. Not too bad for you early risers! Placing market orders during the live market is one option you have, but you can also use a "set and forget" strategy. Set and forget is when you place your entry, stop, and profit target at the same time. If you don't have the luxury or even the desire to watch the market all day and night, the set and forget strategy is a great way to engage in this 24 hour marketplace!

The last reason we'll discuss is the number of pairs you can trade. In the stock market, you can trade thousands of stocks! In our classes, we narrow that list down to a few dozen potential stocks to trade. In the spot forex market, there are really only about 20 pairs that have the parameters I look for: tight spreads and enough daily movement to earn a few pips when they move. If you are extra picky, you can even narrow that 20 down to about 8 potential pairs to trade. With only 8 or so pairs to choose from, it is very simple to spend just a few minutes a day setting up your trades!

So there you have it, the extreme basics of the spot forex market. With the ultra-low cost of getting into trading, the 24 hour marketplace which is suitable for every style of trading, and the few choices we have to trade, I hope you have been enticed enough to take a look at the most popular market on the planet!

THAT WAS EASY

**ORIGINAL PUBLISH DATE: 06.07.11**

Hello traders! This week we will refine a bit of our analysis of supply and demand imbalances, while giving kudos to a (currently) nameless instructor. Last week I was teaching an E-mini Futures class for Online Trading Academy in San Jose, California (yes, I do more than just Forex)! A new instructor was going through the class which is required to become an Online Trading Academy instructor. While we were discussing the inter-relationship between the currency markets and the stock market, a painfully obvious trade showed up on the EURUSD. Why was it PAINFULLY obvious? Because I wasn't able to take the trade myself as I was in the middle of class! Here is the chart I am referring to:


At the blue arrow, our nameless instructor (let's call him Jose) went long the EURUSD and exited part of his trade by the red arrow. This was an obvious and relatively easy trade for several reasons. The reasons are as follows: At the point labeled "1," the EURUSD moved up with enthusiasm from the 1.4083 level all the way to 1.4200, approximately 115 pips in 7 hours. At point 2, the price retraced the exact same distance in less than 3 hours! What does this tell us as traders? That there aren't many orders between those levels at this time! The idea is the next move up will be fast as well. At the blue arrow (now an obvious supply demand imbalance), the trade was to go long with a target near the red arrow. The major take-away from this is the SPEED that the pair went through these two distances. While this setup of rapid moves in opposite directions is ideal for some trades, this doesn't show up for us on every trade.

This leads us to the bigger picture on the chart. The sharp downtrend from the 1.4341 supply zone would lead a trader to believe that the next time we approached this price, it should be a terrific shorting opportunity. However, look at the difference in the speed at which the EURUSD left that level to the speed it APPROACHED that level. Quite a dramatic difference compared to the smaller trade we just discussed! On the way down, how many obvious supply zones can you see? Definitely two, maybe two and a half? On the slow grind up, how many demand levels do you see? Five or more? (Yes, I only labeled three.) This would lead us to believe that the next short opportunity at the 1.4341 level may not work out as well as the long trade discussed earlier.


Now, let's examine the longer term chart. Notice the speed of the moves away from the 1.4893 level. If all we did was look at the impulse moves or speed candles, we may be tempted to only enter short trades! Obviously, the current picture trend is now to the upside. Not as dramatic as the downward move, but it does appear to have a new upward trend in place indicated by a series of higher lows and higher highs. If we get a dramatic move up to 1.4893, I know what my plan will be! Until then, I am concentrating on the slow moving upward trend.

At the time of this writing, Germany had just agreed to a bailout of Greece. While short-term this should stabilize the EUR, the long-term fundamentals of the EUR are not in question to anyone who has done some reading on this economic “experiment.” What will Greece’s future be in the EUR? Stay tuned, as this will be an interesting pair to watch!

## SO MANY LEVELS TO CHOOSE FROM

Hello traders! This week I'd like to discuss a topic that comes up in every Online Trading Academy class I teach. It doesn't matter if it is a Forex class in Austin, a Professional Trader in Minneapolis, or a Futures class in Philadelphia; new traders sometimes have questions as to which supply and demand zones to identify on the charts. The easy answer is, "The most important levels!" However, this isn't all that clear when you are at home looking at the charts on your own!

One of my first suggestions on level choices is to first determine what kind of trader you are. The shorter the term of a trader you plan to be, the more levels you can take as trades – for example, a short-term intra-day momentum trader may have levels drawn 20-50 pips apart, while a swing trader may choose levels that are 100-300 pips apart. The further the levels are apart, the more selective you will be in your trades.


In this AUDUSD chart, a swing trader may define the yellow shaded zones as the levels she will trade, indicating possible entries/exits at the points marked with the "s." A more active intraday trader may use those levels, but additionally, the green shaded supply and demand zones as well, giving him more trading opportunities indicated by the points marked with the "I." The bottomline is you should have a range of pips that is “worth it” for you to trade for. I’m personally not interested in trying to trade for 10 pips! With the distance that the Spot Forex market can move in a few hours or days, I believe most traders would leave a lot of pips on the table with such small targets. If the daily Average True Range is 160, and you are only trying to make 10, I hope you can do that 10 times a day!

The next process that goes into choosing our levels is the quality of the level. There are a few odds enhancers that our Extended Learning Track (XLT) program students know, but the easiest to demonstrate here are the departure and arrival speed to the level we are considering. The basic thought process is this: The faster price leaves a level, the greater the supply/demand imbalance is at that level. When price returns to that same level quickly, there very often aren’t many minor supply/demand zones to stop the same price action from happening again.


On this GBPUSD daily chart, you can see two different supply zones marked A and B. Supply zone A had a fast move away from it marked as 1, and a fast move back into it marked as 2. This would lead us to believe that when we left the zone again, the apparent supply imbalance would cause a sharp move

– labeled as 3. Since leg 2 took so little time to move back into that supply zone, this would lead us to believe that very few supply and demand zones could have formed on smaller time frames to slow down leg 3. Now, let's look at the difference at supply zone B. Notice how the angle of departure is much flatter than the angle of departure from supply zone A. Also, notice all the "waves" in the market as price moved away in leg 4. Each one of those waves has its own smaller levels of supply and demand associated with it. In leg 5, price action moved into the supply zone, but again there were several waves that happened on that move up. This would lead us to believe that the second move away from zone B would be slow.

Now, compare the distance of leg 3 versus leg 6. With the higher quality supply zone A, leg 3 moved past the origin of leg 2! See how far leg 6 went down compared to leg 5? It could only retrace about 50% of leg 5. Obviously, you could have still made many valuable pips shorting at supply zone B, but we are focusing on the quality of these two zones.

So, what are the take aways from this lesson? First, define zones far enough apart that fit your trading style and plan – not every zone is worth it to you! Second, choose the higher quality zones by grading them by departure and arrival speed. This will allow you to take the higher quality/probability trades, with lower risk and higher reward. Always remember that we get paid on the quality of our trades, not the quantity.

## HOW ARE YOU GETTING IN?

Hello traders! In my last Lessons from the Pros article, we discussed the tendency of many new traders to “chase” trades, that is enter well after the optimal entry level. This week I’d like to expand on a slightly different way to enter your trade.

You may have heard the old trading phrase that goes something like “entering your entire position at one time is the height of arrogance.” What this basically means is that no one is good enough at trading to buy the absolute bottom in price to go long or the absolute top when going short, at least not consistently! The theory is then that you should scale in to the trade, adding to it as long as your original analysis is still valid. This idea of scaling in or adding to a position does not mean you get to blindly add to a losing position until it finally goes your direction; this is one of the most basic fundamental mistakes that blow up people’s trading accounts! What I am referring to is the pre-planned adding to a position at or near a high quality demand or supply zone. When we say pre-planned, what are we planning? Our total risk in dollars.


In this GBPUSD chart, I’ve identified an upward sloping trendline that intersects a high quality demand zone. Using the entry styles that we cover in our

Online Trading Academy classes and in our Extended Learning Track rooms, your first (and most aggressive) possible entry using that zone would have been at point labeled "1", as price first touched the top of this zone. Your second possible entry would have been inside the zone, perhaps at point labeled "2". Your third (and most conservative entry) would have been as price was leaving the zone, point 3. Very briefly, the basic difference of each entry are: 1. Most trading chances, not the best reward to risk ratio, worst win loss ratio. Entry 2: Fewer trading opportunities than 1, better reward to risk ratio, better win loss ratio. Entry 3: Fewest trading opportunities, worst reward to risk ratio, best win loss ratio. Each style has its own goods and bads, this is just a brief comparison.

So, as we are considering "dipping our toe in the water" on our trades, testing our level before we put a large position on, what else should we consider? If you answered "risk management," congratulations! Let's say you have a $10,000 trading account, and on this trade you are willing to risk 2% of your account. Because you aren't sure exactly at what prices all three entries will be, I'll use the top of my zone as my average cost of my trade. In this example, my entry will be calculated as 1.5580, with my stop loss for all three entries below the zone at 1.5555. The profit target will be set at 1.5655. With a 25 pip stop and a 75 pip target, my reward to risk ratio is 3:1. Two percent of my account is $200, dividing that figure by the amount of my stop, I can do a total of 8 mini lots maximum.

As the price hits the top of the zone, you could have a limit order set to enter two mini lots at 1.5580; this would be the only way to enter the trade if the price immediately bounced off of our demand zone. As the GBPUSD continued to move into the zone and then slow down, you could enter another two mini lots a bit lower than the original price. Often traders will use a market order here, perhaps looking for a reversal candlestick pattern to confirm their entry. Our third entry of two more mini lots would be executed as price left our demand zone-perhaps by using a buy stop limit for our final entry.

Notice we only entered 6 mini lots, when 8 was allowed with our risk management rules. In every Online Trading Academy class that I teach, I always recommend new traders to be conservative, better to risk smaller amounts until trading becomes a boring and profitable job for you! Using this technique you are limiting losses if your first entry into the zone doesn't work out.

Always remember that adding to a losing trade is considered a bad trading tactic. However, when your total trade is taken into consideration before any lots are entered, we can work around this general rule of thumb. With this scaling in technique, very often your confidence in your trading skill will increase because you aren't so stressed when you enter a smaller sized trade. As the level holds, your confidence in your skill will increase much faster than the traditional all-in, all-or-nothing trading style.

## HOW TO LET YOUR WINNERS RUN

ORIGINAL PUBLISH DATE: 12.13.11

Hello traders! In nearly every Lessons From the Pros newsletter, we discuss the basics that all successful traders have in common – taking your small losses and letting your winners run. How you come to the decision of exactly when and where to get into a trade, based on your own preferred technical analysis strategies, will be as diverse as the number of traders out there! It could be a moving average crossover, supply or demand zone, overbought on a CCI in a downtrend, etc, etc. What isn't discussed very often is how to let your winning trades run.


On this GBPUSD four hour chart, we have a classic version of our rally-base-drop pattern (yes, easy to see after the fact!). Let's say our trader went short in our supply zone at the point marked "1." Obviously, our stop loss would be above the supply zone, with our first target at the level 1.5894. At that time, having a profit target of the demand zone near 1.5428 would have been a bit optimistic. After price has broken the 1.5894 level, we can then determine that a downtrend has begun (at the point marked "2"). If our trader had held onto his position instead of locking in his profits at the original target, he would be targeting the next level of 1.5723. (On this chart, I have used support/resistance lines to show our minor supply and demand zones IN BETWEEN our major supply and demand zones for clarity sake. If you prefer to only use the zone boxes instead of the lines, that would be acceptable as well.)

At the point marked “3,” we had a classic retest of our previous support level (what was support becomes resistance, what was demand becomes supply). Point 3 was also hitting our 50 period exponential moving average – the re-test intersection of the moving average and our supply level gives us a high probability, low risk trend following trade. Selling at point 3 would give us an original profit target of the 1.5723 level, with later targets of 1.5628, 1.5535, and maybe even the 1.5428 levels. So, the question is, why do we have much larger targets at point 3 than at point 1? The reason is that at point 3, THE DOWNTREND HAS BEGUN. At point 1, we are still in our basing action and don’t know if we will have a drop or a rally out of this base. Once our trend has been established, we expect it to continue until it doesn’t. Do we ever KNOW when the trend will end? No, but we would have a reasonable expectation that the demand zone that started our original rally will stop this trend.

So, how can we let our winning trade continue to run? There are several techniques. The most obvious is to let a moving average keep us in the trade – when our price action finally closes ABOVE a downward sloping moving average, we will exit. (Closing BELOW an upward sloping moving average will keep us in an uptrend.)


On this zoomed in GBPUSD chart, waiting for that close would have taken us out of our trade at point 1 near the 1.5609 level. The next technique would be let our trendline take us out of our trade. The same closing rules apply to trendlines as to moving averages. On this chart, that would have been at point 2 near the 1.5597 level. The exits on these two different techniques are usually different; sometimes one works better than the other – there isn't a fixed rule on which is better.

The third technique is to move your stop above the previous swing high every time we have a new swing low.


This is the same GBPUSD chart, with the trendline and moving average removed. When price action at label 1 breaks the previous swing low, your stop loss is moved to the previous swing high which is marked 2. At new swing low 3, the stop is moved to 4; at swing low 5, the stop is moved above swing high 6; at low 7, the stop is moved to above swing high 8. This technique would have taken us out of the trade at the red arrow, near price 1.5567. In this entire example, obviously, the top of the major demand zone in the yellow shaded area would have taken us out at 1.5428. Looking in the past, the best technique is always obvious!

While we are in a trend, our best exit style isn't known. Our job is to let our winners run, and using one of these techniques will help us stay in some longer trend moves when they happen. Because we don't KNOW when a longer term trend will happen, we need to have a set of rules that will allow us to recognize and take advantage of these higher pip trades! Paper trade each technique, and choose one that suits your personality.

**WHO HAVE YOU FIRED TODAY?**

**ORIGINAL PUBLISH DATE: 04.19.11**

Hello traders! This week we will delve a bit into the psychology of managing your trades and how similar it is to managing good and bad employees. One of the questions I ask of every class is, “Has anyone ever been in charge of hiring and firing of employees, either from running your own business or being in management?” Usually, well over half the class raises their hand. Trading is very similar in this regard. How many of you have had that distinct pleasure? When you had an employee who came to work late, took two hour lunches, left early and stole your office supplies, what did/would you do with that employee? My expectation is that you would fire them! Now, if you had an employee that came in early, ate lunch at her desk, worked late and came up with great ideas to make your workplace more efficient, what would you do? Ask if she had any friends or family who were just like her so you could hire them as well!

We must treat our trades in exactly the same way. The ninety percenters out there do it just the opposite. (As a reminder, a ninety percenter is one of the unsuccessful traders in this vast world of trading. It doesn’t mean that they are wrong on 90% of their trades, it means that they are probably doing one or more of the major mistakes we talk about every week in the Lessons from the Pros newsletters.) If a trade is going the wrong direction in your account, your job is to get rid of that trade. Fire that employee! My personal philosophy in the market is that I am NOT self-employed as a trader. The MARKET is my boss, and my trades are my employees. I am merely a manager of these employees.

What is one of the ninety percenter mistakes? Adding to a losing position, one that is going the wrong direction. Especially if their original reason for being in the trade is no longer valid! That is like having a terrible employee and trying to hire their slacker of a brother! Bad idea!


If you were running a business, would you keep that employee around if he was stealing from you? Or worse, keep adding their family members and friends? That is what ninety percenters sometimes do, and look what happens on the chart! That is a quick way to have YOUR boss, the market, fire you! If you choose to do this, I hope your resume is up to date…

> **“… no trend lasts forever, and all employees (trades) will end up going against you eventually.**

A successful trader will allow his good employees (profitable trades) to keep working until they become bad employees. Eventually, they all start to steal from you! In the following chart, you hire (buy) at point 1. Points 2, 3, and 4, you are trying to hire this employee’s friends and family (buy more) until the entire group become dishonest and lazy employees, in which case you fire them (sell) at point 5. There are several ways to “scale in” to trades which are covered much more in depth in our classes. Always understand that no trend lasts forever, and all employees (trades) will end up going against you eventually.


Another ninety percenter mistake is to fire their employees just as they start doing a good job – cutting off winning trades too early! There are many reasons for this – just wanting to have one profitable trade after a string of losses, fear of a winner turning into a losing trade, etc. The ninety percenter may sell at point 6, later on wishing he hadn't, then hoping for a pullback to his original price to get back in. Successful traders/managers allow those winners to keep running! Always keep in mind that trading is a marathon, not a 100 yard dash (or 100 meter for you traders around the world!). Having a small string of losing trades is just part of the business. As long as your losses are small and your winners large, you can be a great manager at the end of the year!

Hopefully, this change in psychology helps with your trading!

# WHAT THE DENTIST TAUGHT ME ABOUT OSCILLATORS

Hello traders! During every Online Trading Academy class, your instructor will emphasize repeatedly the importance of buying in clear demand zones and selling in supply zones, being aware of the bigger picture trend. This is nothing new to the Online Trading Academy student or someone who reads these Lessons From the Pros newsletters! One of the most common complaints we instructors hear is, “I’m not sure which supply zone to sell in or which demand zone to buy in. There are so many of them!” While this can be true, one of the odds enhancers we can use is an oscillator of the price action.

One way to look at oscillators (this week I’ll examine slow stochastics) is to imagine that they are showing the strength of the internals of the move. While at my last dentist visit, my mind wandered into the trading arena as I waited to get my teeth cleaned. Always trying to apply “regular world” experiences to the world of trading I asked the dentist why he takes x-rays of people’s teeth. The answer was, of course, very obvious – “We can’t always tell what’s going on inside the tooth just by looking at the outside.” So essentially you are checking the internal health of my teeth which may not match what looks to be healthy on the outside? “Precisely.” This immediately made me think of indicators and oscillators when used in trading.

My preferred way of using the slow stochastics is to hunt for the divergences in price and the oscillator, specifically in comparing the highs vs. highs and lows vs. lows. If the price action is showing new highs while the oscillator is showing equal or lower highs, we define that as a bearish divergence and expect a possible turn to the downside. If the price action is showing lower lows while the oscillator is showing equal or higher lows, that is a bullish divergence where we may expect a turn to the upside. In this EURUSD chart, you can plainly see several supply zones that were hit as the pair rallied into the 1.4131 zone. While a few of the levels slowed down our currency pair, the stochastics (internal strength) didn’t give us an obvious divergence until that 1.4131 level. Using the technique mentioned previously, as price was rallying


to higher highs, the slow stochastic was showing lower highs. If you used this simple divergence, it would have kept you from trying to "pick the tops" as the pair was still showing strength.

The following is a chart of the USDCAD showing an example of both a bullish and bearish divergence on a fifteen minute chart. There are a couple more in there, can you see them?

## DO YOU KNOW WHAT TIME IT IS?

This week I am going to show you a little bit about trend following and what time frame chart you should think about watching. There are several things that should go into your decision of what time frame chart to watch, not the least significant is how often do you want to trade. The general rule of thumb is the more active you want to be, the shorter time frame you will watch. A trader who stares at a 60-minute chart all day looking to place a trade will very often get one or two decent opportunities. A trader who watches a 5-minute chart will have many more chances to trade. The main difference is that with larger time frames, you will generally have larger stop losses and larger profit targets. “Which trader will make more money at the end of the year?” is a question we get in class all the time! The answer? It depends on many factors including risk management, exiting techniques, etc. There isn’t a firm rule for this, other than smaller time frames will give you more opportunities.

Another factor that will go into your choice of time frames is your discipline. This is one of the most important factors in becoming a successful trader! I did a Google search for “trader discipline” and over 2,500,000 results were found. Apparently, I’m not the only one who thinks this is an interesting topic! If you plan on trading just a couple of times a week, perhaps watching a four hour chart, does it help you to watch a 5-minute chart while you are in a trade? My response would be absolutely not, unless you are highly disciplined. Today in the Boston, Massachusetts Online Trading Academy office, I met a lady who was somewhat new to trading. She was trading from a larger time frame (like a four hour), yet would watch her trade on a smaller time frame (like a 5-minute). Any small move against her position on that 5-minute chart made her very nervous, so nervous that she occasionally would exit her trade on her own without waiting for the trade to get to her stop loss or profit target. Is that adhering to your trading plan? No it is not. The point is this: If you are disciplined, you have my permission to watch your trades on the smaller time frames. Let your trade plan work for you! If you are not disciplined, you do NOT have my permission to watch your trades on the smaller time frames, as you may be tempted to exit prematurely.

In the Spot Forex market, many traders are using the 1 hour (60-minute) chart to trade from. My personal belief is that using just one time frame chart is a 90 percenter mistake. (What is a 90 percenter? Since it is commonly believed that 90 percent of traders lose money to the 10 percent that make money, mistakes that are done by them are 90 percenter mistakes. See how easy this is? You can read more about this in my previous article entitled, A 90 Percenter Mistake.) When using just one time frame to trade from, these 90 percenters will very often buy into a bigger time frame's supply zone, or sell into a bigger time frame's demand zone. The way I personally see the market is this: The bigger the time frame, the bigger the money. While looking back in time to see significant supply and demand zones on just one time frame is fine for the experienced trader, very often seeing the bigger picture on a larger time frame can give us clues to market turns by looking for reversal patterns and /or candlesticks.

> **“The bigger the time frame, the bigger the money.**

When you consider that the Forex market is used by HUGE multi-national banks, manufacturers, etc, to hedge their currency risk, you must be aware that they aren't trading for 20 pips in 20 minutes. They don't care about that! They are more concerned with 100's or 1,000's of pips over weeks, months, and quarters. This market is terrific for longer term trends lasting many weeks! So the point is this: Don't buy into a zone that they are looking to sell, and don't sell into a zone that they are looking to buy. Pay attention to the signals that these giant traders and investors are giving us by their footprints on the charts. In class we call looking at different chart times “multiple time frame analysis.”

Very often a trader will use a smaller time frame to trend trade between larger time frame supply and demand zones.

In the following picture, the trader would have used the 240-minute chart for the significant supply and demand zones, with the 15-minute chart on the right for the trend between them. The blue arrows correspond to a long entry, and the red arrows correspond to the long exit.


Always pay attention to what the bigger traders are telling you and your path to low risk, high reward trades will be easier!

# LEARNING TO TRADE IS LIKE LEARNING TO DRIVE

I was a bit torn on how to present the idea I had in my head. At first I wanted to use a lot of golf comparisons instead of car driving analogies, but after talking to a couple of my recent students, I realized that nearly everyone can relate to driving a car while not so many can relate to learning how to play golf. Get it? Learning how to "drive?" Puns and golf humor are truly hysterical.

In nearly every class we have at Online Trading Academy, there are students who have never engaged in the markets before. While getting an education with us is the best thing that a beginning or unsuccessful trader can do, occasionally a new student will think that there is a magic wand that we can wave which will make someone a successful trader. "Abracadabra, you now know the Holy Grail; next week you will make $1000 a day trading!" I wish it was that easy! After a five, six, or seven day class with Online Trading Academy, the new student has been given a HUGE amount of information about the marketplace. It may take a few days for all of that information to sink in and be sorted out in an easily accessible way.

Think about it like this. Remember when you first learned to drive a car? Did Mom or Dad give you the keys to the Ferrari and say, "Get out there on the highway and do 150 MPH!"? I doubt it. I learned to drive in a 1972 Plymouth Satellite with a black vinyl bench seat and automatic shifter on the steering column. Sorry guys, it wasn't a hemi. My dad took me to the local high school parking lot and after about 10 minutes of adjusting the seat and mirrors, I finally was able to shift out of Park. No touching the gas though! Just let the car move itself and get used to the steering going 3 MPH. Push the brake, get used to the feel. After a few minutes of that I was finally instructed to gently push the gas pedal, but not too hard! After what seemed like an eternity, we finally made it out onto a side road where I was terrified of this giant pile of metal and the amazing speeds we were hitting. Looking back, I know it was probably 15 miles an hour.

What about today? After several years of driving, most people have no problem doing 80 MPH while adjusting the radio, drinking coffee, chastising the kids and updating their Facebook status at the same time! No, I don't condone this level of multi-tasking!

Trading has a very similar learning curve. In the beginning of your trading career, you SHOULD be afraid of the potential damage that you can do to your own money! The professional traders out there don't care about you; they just want to take your hard-earned dollars. My recommendation is to trade very small position size, if not even on the demo (practice) account. While trading on demo has its benefits (can't lose real money, can get used to what all the buttons do, etc.), nothing moves you up the learning curve faster than trading your own live money in the market.

After trading very a small position size (for example 1 mini lot) for a few days or weeks, now it's time to move up to 2 minis. Trade that for a few days or weeks, then 3 minis, etc., etc. The reasons for building up slowly are many but **I will highlight a couple here:**

**1** Get confidence in your ability to read charts. In my opinion, charts are pretty easy to read – all you can do is buy, sell or wait. If the price isn't at a good level of supply or demand, you must wait. Easy, right? Once you've seen several hundred or thousand charts, much of it will start to seem familiar. Much like driving a car! Most of us can drive in California or Texas or Florida or wherever. Why? Because it all works pretty much the exact same way. So do charts.

**2** Build a buffer around your emotions. The market doesn't care about your position size. A 50 pip move on a mini lot in the EURUSD is only $50. But a 50 pip move on 5 standard lots is $2500. Does the market care about your position size of 5 standards? NO. The only difference is how the larger position size affects YOU. Building up your position size slowly allows you to not be emotionally affected by the massive changes in the profit and loss column from trading larger sizes.

Eventually, even the new trader or driver can do things that would have seemed unimaginable just a few short weeks ago. In driving, you can take advanced driving classes to learn how to navigate foul weather, high speeds, etc. At Online Trading Academy, you can enroll in the Extended Learning Track program, re-take your classes, read these newsletters, play the Hard Right Edge game, etc. All of these things will help your confidence and move you up the learning curve to where multi-tasking – trading multiple trades, asset classes, etc. – become second nature to you

# MIRROR MIRROR ON MY DESK

ORIGINAL PUBLISH DATE: 11.21.11

Hello traders! Last week, I was teaching a Forex class in the Irvine, CA office of Online Trading Academy and had an interesting conversation with a couple of students. The interesting part was that it was the same conversation I've had with dozens of traders from around the world – be it in class, an airport, or even listening to a cab driver tell me about his trading! The conversation starts the same way – "I know a lot about trading/charts, but I'm not consistently profitable yet." My response is always along the lines of, "Are you disciplined?" and "How are you defining consistency?"

Let's look at discipline first. Many people say or think that they are disciplined – but there is one way we can easily tell for sure. What is the profit and loss total in your account? If you "know a lot about trading" and your p&l is negative or red over time, you are not a disciplined trader. Your computer monitor is like a mirror, showing you your true discipline level. Every professional trader will take losses – but these losses are small. Some pros take frequent very small losses, other take less frequent slightly larger losses, but taking the small losses is how we stay in this business.

### Here are some ways that traders show their undisciplined side:

**1** Do you plan all three parts of the trade before you hit the buy or sell button? This means knowing where you will enter the trade, exit with a small loss, and exit with a larger gain. If you don't know all three parts of the trade ahead of time, you are doing it wrong. If there "isn't enough time to figure those out, because it's moving now!" you missed the good entry. Are you buying after several large green candles, or selling after several large red candles? You are late to that trade, and must be disciplined to wait for the next one!

2 Do you leave your stop loss alone, never moving it in the wrong direction? Meaning, if you planned to take a 20 pip stop loss, do you move it to 30 or 40 pips to stay in a trade that is going against you? This is changing your original plan, and one of the biggest mistakes that non-disciplined traders make.

3 Do you add more to a losing trade? This is commonly called averaging down. It is also called throwing good money after bad. A very famous and successful trader has a sign over his desk that reads “Losers Average Losers.”

4 Similar to number 2, do you start a trade as a short-term trade, then decide to hold it as an “investment” because it isn’t working out? I had a student once who said, “I haven’t taken a loss in months!” Sounds like he must be doing great, right? So, of course, I asked what he had in his account. It was entirely margined out on stocks that he was losing money on. He hadn’t taken his small losses, and was now “stuck” in several losing trades because of it.

As we like to say in class or in the Extended Learning Track (XLT) program, trading is simple, just not easy. The difficulty comes in being disciplined enough to take the small losses and to let your winners run. Your computer monitor will definitely be the mirror of your personal trading discipline! The best traders will quickly take their small losses and happily manage their winning trades until their profit targets are achieved. Simple, isn’t it?

Another question that comes up in class is the matter of consistency. This is especially true for students who are retaking our classes. (For those of you who don’t know, Online Trading Academy offers free retakes for life. I recommend students take the class twice, hopefully, from two different instructors to get a different view of the market and trading.) When someone says that they aren’t consistently profitable yet, my next question is, “Consistent versus what?” I prefer to measure consistency over monthly or even quarterly time frames, never on a day to day basis. Many profitable traders will have a losing day or two or three during a week. But these losing days are small, while their winning days are much larger. If you aren't consistently making money every day, welcome to the majority of professional traders! Even comparing one week to the next is too short of a time frame, in my opinion – one week could have very few economic announcements and low volatility, while the next could have several central bank interest rate announcements and much higher volatility. Which week should have larger winning trades? Probably the more volatile week.


Here is an example of the different times a trader may compare themselves to. In the box marked 1, a swing or position trader (someone who holds trades for many hours to several days) may be flat in their account as the market pauses, trading with a falling Average True Range of approximately 120 pips. Can they compare that time frame to time frame number 2, an obvious uptrend with increasing ATR? Of course not! Those traders should do much better in the area marked 2 versus 1! What about the day trader who only holds for a few short hours? Should they compare their performance in box 1 to their performance in box 3? The ATR in box 3 is much higher, near 180 pips. Their winning trades probably have many more pips in this area of the chart vs. area number 1.

In the end, your profit and loss will inform you of how disciplined you are. If you find your consistency lacking, make sure you are comparing your trading in the proper way. As has been mentioned many times in these Lessons from the Pros newsletters, charting is the simple part of trading! If you know a lot about charting and are still not profitable, concentrate your efforts on improving your discipline, NOT looking for the Holy Grail of indicators to give you 100% winning trades. This does not exist. Read Dr. Woody Johnson's Lessons from the Pros, get in his Mastering the Mental Game XLT class, and work on what is really holding you back!

# TIME TO EXORCISE YOUR TRADING DEMONS!

Hello Forex traders! Have you been keeping track of what you are good at and what you are bad at? In previous newsletters, we've discussed the fact that trading is a very SIMPLE thing to do, however, it is not an EASY thing to do. The actual process of looking at some wiggly lines and flashing lights and hitting a few keys is simple. Getting rid of your losing trades and letting your winning trades run is the part that isn't easy. Psychologically, people often have a difficult time taking a loss – being "wrong." After a couple of losing or flat days, often new traders are too quick to take their profits – leaving significant money on the table.

> **"Psychologically, people often have a difficult time taking a loss – being "wrong."**

Most of the problems people have in trading come down to the two main emotions that affect all of us when staring at the screen – fear and greed. Believe it or not, even long-term successful traders will be affected by these emotions as well, if only just a little bit! Let's take a look at how we can RECOGNIZE our own fear and greed in our previous trades to help us minimize our future trading mistakes.

If you are doing your homework on your trades, you are keeping track of more than just the profits and losses. You are aware of what strategies/setups are working for you, the time frames you are comfortable with, etc. Now I want you to look at your last 100 losing trades. Yes, 100 of them! Go do it right now, I'll wait....There, was that a bit painful to look at? I imagine it was. In those 100 losing trades, there are going to be several reasons why you lost money. Now I want you to organize those losing trades into the reasons they were losses. Some of the common reasons are buying/selling a failed breakout, buying/selling into a significant supply/demand zone, trying to trade news, etc. Here is a quick example:

| Reason for losing trade (My demons) | Number of times I made this mistake |
|---|---|
| Buying/selling a breakout | 40 |
| Buying/selling into supply or demand | 25 |
| Trading ahead of news | 15 |
| Market went the wrong way | 20 |

Now we can determine where to start exorcising these trading demons! Which is your worst demon? In other words, in those 100 losing trades, who showed up the most times? In this example, our trader lost money on 40 trades trying to buy or sell breakouts. What do you think he should do? Stop trading breakouts! (Please keep in mind that when keeping track of your strategies and setups, you must determine if this strategy works for you in the overall trading plan. If you made a total of 500 pips and lost a total of 50 pips trading breakouts, this is probably a successful strategy for you. If you made 50 and lost 500, stop trading that strategy!!)

A simple way to remind you of the trading demon you are working on is to print out a chart of a losing trade and attach it to the wall above you monitor. This will be a constant reminder that this is a demon that must be exorcised; don't take those trades! Here are a couple of examples:


When you have reached the point where you don't even CONSIDER taking these trades anymore, congratulations! This demon is now gone. Time to move on to the next one! Eventually, you will get to the point where the vast majority of your losses are simply the fact that the market didn't go your direction. Always remember that trying to be right 100% of the time is a waste of time! Successful traders take their small losses and move on to the next trade – it is part of the business! By eliminating the demons (which is very often allowing your emotions of fear and greed to control your actions), you are well on your way to becoming successful.

Those of you who have been to an Online Trading Academy class or have been reading these newsletters for a while may recognize the obvious mistakes in the above trades. Buying in clear demand zones and selling in clear supply zones will keep you from doing many of these trading demons to begin with! The idea is to NOT let your emotions overwhelm your technical analysis – doing this drill will give you greater confidence in trusting the levels you have analyzed.

## ARE YOU TRADING WITH A PLAN?

Hello traders! In every Online Trading Academy class that I teach, I will ask the questions, “Who has a trading plan? Not just one in your head, but one that is written down?” Students who are new to class invariably say no. What astonishes me is when a student who is retaking the class doesn’t have one. Several times during our 5, 6 and 7 day classes, the topic of your trading plan comes up. If you have been to a class or two (or more!) and don’t have a trading plan in writing, you are doing it wrong! The importance of a plan when you get into trading can’t be emphasized enough. Would you open any type of business without some sort of plan? If you open a McDonald’s franchise, do they say to you “Paint your walls red and yellow, sell some hamburgers and go make money!” ? I think not. This week’s newsletter will give you some suggestions for your own trading plan.

Perhaps the most important section of your trading plan will be your risk management parameters. These rules should include things like: How much of your account will you risk on any individual trade, how much will you risk on a daily basis, what will you do if you hit your daily loss limit (go to demo, come back tomorrow), number of positions you will take on at a time, etc? In the beginning of your trading career, we like to suggest risking .5% of your risk capital on an individual trade, 1-2% on a daily basis and trade 1 or 2 positions at a time. These figures may seem a bit conservative to many of you, but trading is a marathon not a sprint. We want you to be a trader for life! If you trade too aggressively and risk too much of your account, your career will be a short one. As we’ve discussed in numerous newsletters, risk management is the Holy Grail in trading.

Trading strategies should also be included. My recommendation is to have two reversal strategies and two trend following strategies to get started. As a reminder, a reversal strategy could be looking for reversal patterns that are easy for you to see, and a trend following strategy could be a Fibonacci retracement or a trendline retest. Capturing screenshots of these strategies and including them in your plan will definitely help to reinforce what you should be looking for on your charts!

**Making a list of your daily routine is important. This can be as extensive as you want to make it including things like eat a good breakfast, exercise, meditate, etc. Some basic suggestions would be:**

1. Check your computer /internet speeds for any lag or data issues
2. Check yourself – do you feel good enough to trade today?
3. Economic calendar – any significant news today or tonight?
4. Any commodity action that can help make decisions? Things like oil, gold, and copper
5. Look at the bigger picture in your charts – daily and weekly time frames
6. Check your own personal chart time frames
7. Review your trades

I have seen student "to do" lists as long as 40 items! In class, we get to about 15. As we like to say, a pilot doesn't start to fly unless she checks her plane, and a trader shouldn't trade until their list is completed!

What are your goals? This should include both short-term and long-term. Some short-term goals could be to make 20 pips a day, supplement an income, save money to take a trip, etc. Longer term goals could be to completely replace a full-time job, start a hedge fund, buy a house, etc. Obviously, these will be very personal and unique to your own plan.

What type of entity will you trade in? Some possibilities are s-corporation, LLC, or an individual account. I strongly suggest you speak to a CPA or tax professional to decide what is best for your financial situation. A trader who owns several rental properties and has five children living in Canada will have different needs than someone with no kids living in an apartment in Nevada.

You need to have a trade review process. What will you be keeping track of? In previous Lessons from the Pros newsletters, I've suggested a few things such as chart time frames, currency pairs, time of day, patterns, setups, etc. Not every trader is good at every technique, so you should keep track of what you are good at and what you are bad at. Do more of what you are good at and stop doing what you are bad at! Make sense?

The last Forex class I taught in Irvine, CA had the most impressive student trading plans I have ever seen. Most classes will have one or two outstanding trading plans, with some plans needing a lot of work. A full 25% of class had terrific plans; way to go Irvine!

How many pages does your trade plan actually have to be? In my opinion, one isn't enough. Each of the above topics could be anywhere from a paragraph to several pages long so the total length of your plan will depend on how in depth you want to go. Hopefully this trading plan outline helps a bit, and the next time I see you in class, I will be impressed!