

Trading Guidelines

Why guidelines and not rules? Because there are no rules.

1. Everything that you see is in a gray fog. Nothing is perfectly clear. Close is close enough. If something looks like a reliable pattern, it will likely trade like a reliable pattern.
2. Every bar is a signal bar for both directions and the market can begin a trend up or down on the next bar. Be open to all possibilities and when the surprise happens, don't question or deny it. Just read it and trade it.
3. Everything makes sense. If you know how to read price action, nothing will surprise you because you will understand what the market is doing. Beginners can see it on a printout at the end of the day. The goal is to learn how to read fast enough so that you can understand what is happening real time.
4. Simply understanding price action is not enough to make you profitable. You must learn how to take the best trades and follow your rules.
5. Trading is a job, and if you expect to make serious money, you need a business plan, just as you would have with any other business, and you must follow your plan. The plan can be simple, such as only taking two or three types of setups off a single 5-minute chart, scalping half and swinging the other half with a breakeven stop. However, you must follow your plan. The profit margin is tiny in this business so even a couple lapses in discipline a day can keep you in the red.
6. Don't turn the market into a casino, because that kind of math is relentless and unstoppable and will destroy you. Many strategies work often enough to make you believe that you will eventually be able to make a living off of them, but the math is against you. Trading off the 1-minute chart is the classic example. You win often enough to believe that you will eventually hone your skills to the point that you will make a fortune. The reality is that many of the best trades happen too fast to catch and you will be left picking among the less profitable ones and make less than you would off the 5-minute, if you make anything at all.
7. There are no reliable Countertrend patterns, so never trade Countertrend unless there first has been a break of a significant trendline. And even then, first look for a With Trend trade that should lead to a test of the old trend's extreme. If the market once again reverses near the old extreme, then you should be entering in the direction of the new trend.
8. All patterns fail, and the failures often fail, but a failed failure is a second entry in the original direction and has a high probability of success.

9. When you see that one side is suddenly trapped, the reliability of a scalp in the opposite direction goes up. Trapped traders will be forced out as you are getting in, and they will likely wait for more price action before entering again in their original direction, so the only traders left will be in your direction.
10. Seeing traders getting trapped out of a trade on a stop run is as reliable a signal as seeing them getting trapped in a trade. If the market suddenly runs stops and then resumes its trend, this is a reliable setup for at least a scalper's profit.
11. Many beginners want excitement and tend to overtrade. Many great Traders find trading to be lonely and boring, but very profitable.
12. Simple is better. You don't need indicators, and you should only look at one chart. If you can't make money off a single chart with no indicators, adding more things to analyze will only make it more difficult. Also, only trade the very best setups until you are consistently profitable.
13. Decide if this is a hobby or a job. If it is a hobby, find another one because this one will be too expensive and it is dangerously addictive. All great traders are likely trading addicts, but most trading addicts are or will likely end up broke.
14. If you can't juggle one ball, don't try to juggle two or three. If you are not yet making money, start with one chart, one market, one time frame (the 5-minute), and one concept (price action and not indicators).
15. Begin trading using a 5-minute chart and entering on a stop. Take some or all off on a limit order at a profit target, and then move the protective stop to breakeven on any remaining contracts.
16. Buy low, sell high, except in a clear and strong trend. In a bull trend, buy High 2 setups even if they are at the high of the day, and in a bear, sell Low 2s. However, the market is in a trading range for the vast majority of the time. For example, if the market has been going up for a few bars and there is now a buy signal near the top of this leg up, ask yourself if you believe that the market is in one of the established clear and strong bull trend patterns described in this book. If you cannot convince yourself that it is, don't buy high, even if the momentum looks great, since the odds are great that you will be trapped.
17. Every segment of every chart commonly can be classified as more than one pattern, and almost always the patterns will point in the same direction. All you have to see is just one to place a trade. For example, a Failed Final Bear Flag long can also be a Double Bottom Bull Flag, and this might also be a Bull Spike and Trading Range Reversal that reversed up after

overshooting a trend channel line and a larger bull trend line, and it can progress into a Spike and Channel Bull. If you recognize any of these, you can place a trade even if you do not see all of the others.

18. Good fill; bad trade. Always be suspicious if the market lets you in or out at a price that is better than you anticipated, but if the setup is good, take it. The corollary of bad fill, good trade is not as reliable.

19. Trends are always forming pullbacks that look like terrible entries but are profitable and reversals that look good but are losers. Most trend pullbacks follow just enough of a climax to make traders wonder if the trend has ended and trap traders out of entering on the pullback. Also, the trend reversals are just good enough to attract and trap Countertrend traders. If you trade Countertrend, you are gambling, and although you will often win and have fun, the math is against you, and you will slowly but surely go broke. Countertrend setups in strong trends almost always fail and become great With Trend setups, especially on the 1 minute chart.

20. The easiest time to make money is in the first 90 minutes, and some of the easiest trades to spot are failed breakouts and breakout pullbacks of patterns from the prior day. Beginners should avoid trading in the middle of the day and in the middle of the day's range.

21. When you are about to take any trade, always ask yourself if the setup is one of the best of the day. Is this the one that the institutions have been waiting for all day? If the answer is "no" and you are not a consistently profitable trader, then you should not take the trade either. If you have two consecutive losers within 15-minutes or so, ask yourself if those were trades that the institutions have been waiting hours to take. If the answer is no, you are overtrading, and you need to become more patient.

22. Those who talk don't know and those who know don't talk. Don't watch TV or read any news. The traders who are making the most money trading are too busy to be on TV. Ask yourself, if you are netting even just two points in the forex a day on large positions, do you really want to bother with going on TV? So why are you listening for trading ideas from someone who can't even make a couple points a day? Trading is a business, not a religion, so don't look for a trading savior.

23. Every bar and every series of bars is either a trend or a trading range. Pick one. Throughout the day and especially around 8:30 A.M. PST, you need to be deciding whether or not the day resembles any trend pattern described. If it does and you are looking to take any trade, you must take every With Trend trade. Never consider taking a Countertrend trade if you haven't been taking all of the With Trend trades.

24. The best signal bars are trend bars in the direction of your trade. Doji bars are one bar trading ranges and therefore terrible signal bars. You will lose if you buy above a trading range in a bear or sell below one in a bull.

25. You will not make consistent money until you stop trading Countertrend scalps. You will win often enough to keep you trying to improve your technique, but over time your account will slowly disappear.

26. You will not make money until you start trading With Trend pullbacks.

27. You will not make money trading reversals until you wait for a break of a significant trendline and then for a strong reversal bar on a test of the trend's extreme.

28. If you lost on two or three trades in a row or if you lost money on the day, you are overtrading and not being patient. You might be fooling yourself and looking for "low risk" early entries on the 1- or 3- minute charts, or you are trading Countertrend, or you are trading in Barb Wire. Bad habits always erase more than your winnings. You are on the path to a blown account, even though you might be moving slowly in that direction. But you will eventually get there.

29. You will not make money long term until you know enough about your personality to find a trading style that is compatible. You need to be able to follow your rules comfortably, allowing you to enter and exit trades with minimal or no uncertainty or anxiety. Once you have mastered a method of trading, if you feel stress while trading, then either you haven't yet found your style or yourself.

30. Always look for two legs. Also, when the market tries to do something twice and fails both times, that is a reliable signal that it will likely succeed in doing the opposite.

31. Never cherry pick because you will invariably pick enough rotten cherries to end up a loser. Either swing trade and look to take only the best two or three of the best setups of the day, or scalp and take every valid setup. That, however, is the more difficult alternative and is only for people with very unusual personalities (even more unusual than the rest of us traders!).

32. Beginners should only take the best trades and either scalp or swing. It is difficult to watch a screen for two or three hours at a time and not place a trade, but this is the best way for beginners to make money. If your overriding goal is to make money, this is what you must do. If you do not, then you have other goals that are interfering with what should really be your only goal.

33. Discipline is the single most important characteristic of winning traders. Trading is easy to understand but difficult to do. It is very difficult to follow simple rules, and even occasional self-indulgences can be the difference between success and failure. Everyone can be as mentally tough as Tiger Woods for one shot, but few can be that tough for an entire round, and then be that way for a round every day of their lives. Everyone knows what mental toughness and discipline are, and everyone is mentally tough and disciplined in some activities every day, but few truly appreciate just how extreme and unrelenting you have to be to be a great trader. Develop the discipline to take only the best trades.

34. The second-most-important trait of great traders is the ability to do nothing for hours at a time. Don't succumb to boredom and let it convince you that it's been too long since the last trade.