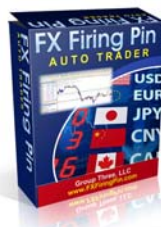


Rules of Engagement Battle Plan Featuring Firing Pin Methodology



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August 23, 2011

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Introduction

The FiringPin and STC indicators work within the MT4 trading platform. If this is the first time you've used the MT4, we recommend getting acquainted with its basic features.

For an excellent tutorial on using the MT4 platform, visit the following web site:

http://compassfx.com/virtualtour/metatrader_tour.htm

Although we have obtained permission from CompassFX to furnish this link, Group Three does not have a business relationship with them, and the fact that we are directing you to their web site should not be construed as an endorsement or recommendation.

Download a Free MT4 Platform if you don't already have it.

You must have an MT4 demo or live account to use these indicators. You can open a free demo account with any Forex broker offering the MT4 platform.

You can do a Google search using the phrase "MT4 Brokers List." Because of important inconsistencies in price data, we recommended you download the MT4 platform from a broker instead of downloading a demo MT4 platform from MetaQuotes – developers of the MT4 platform. This way, you'll get real market data to practice with instead of data that has been aggregated and approximated. This makes a big difference in the results you will see in demo trading.

We use Interbank FX. You may download a free Mt4 platform from them below. However, keep in mind we have no relationship with Interbank and do not consider this as a recommendation to use their services. It is up to each individual to do their own research and due diligence to determine the best broker for themselves. We receive no compensation from Interbank for providing you this download link. We provide it to you for convenience purposes only.

<http://www.ibfx.com/Platform/Forex-Trading-Platform>

Make sure you use Metatrader 4 – NOT 5 as these indicators will only work with 4.

Installing the Template and the FiringPin and STC indicators.

After downloading and installing your MT4 platform, you are ready to download and install the indicators. To do so, access them from the download page by going here:

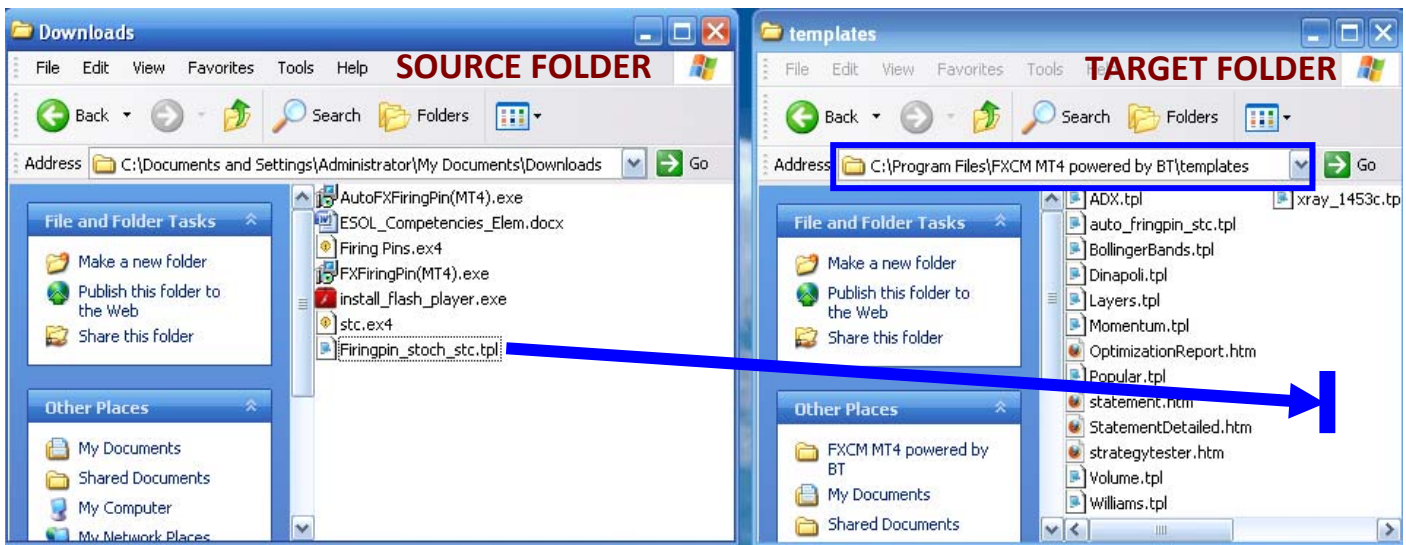
<http://AutoFXFiringPin.com/indicator>

Password: battleplan

Note: Remember where you saved your indicators after downloading them so that you can locate them easily when you manually install them into your MT4.

1. **Make sure your MT4 platform is closed**, otherwise you won't be able to see the indicators after you install them.
2. Open the folder that you saved the FiringPin, STC, and Template to. That will be your SOURCE FOLDER.
3. Go to your C: drive and open C:\Program Files {or Program Files(x86)}\Your Broker's MT4\templates.

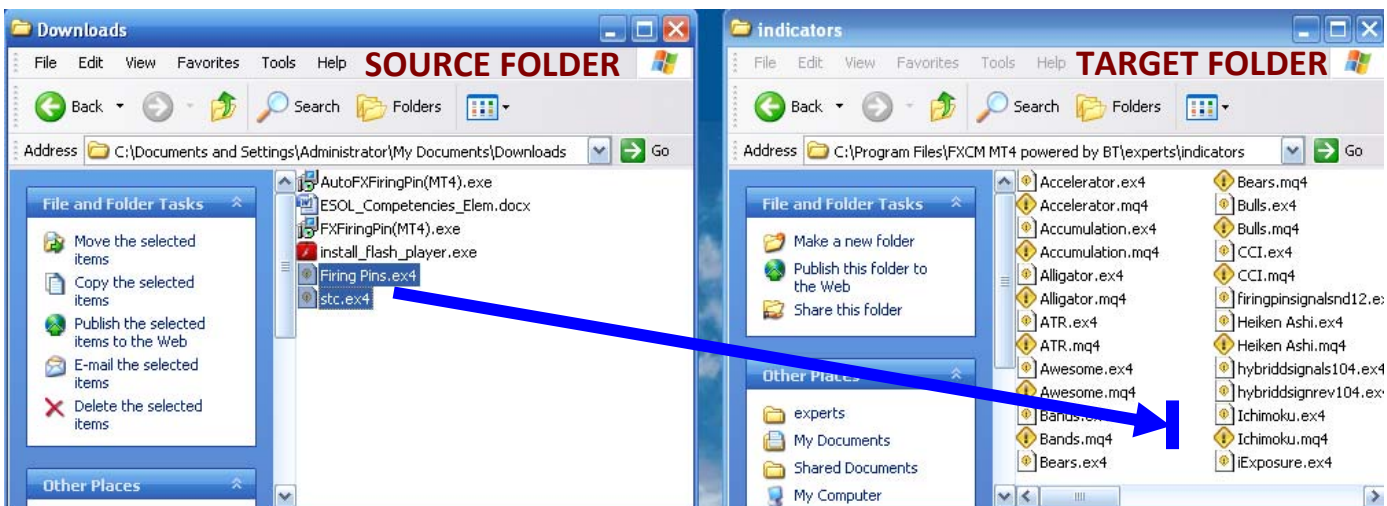
The path is shown in the illustration below (outlined in blue). Highlight and copy the Firing Pin_stoch_stc.tpl template from the SOURCE FOLDER, then paste them into the TARGET FOLDER, wherever there is white space. They'll appear in their proper order after you close and reopen the TARGET FOLDER.



4. Open the experts folder and then open the indicators folder. This will be your new TARGET FOLDER. The path is shown in the illustration below (outlined in blue).



5. Highlight and copy the Firing Pins.ex4 and stc.ex4 indicators from the SOURCE FOLDER, then paste them into the TARGET FOLDER, wherever there is white space. They'll appear in their proper order after you close and reopen the TARGET FOLDER.



6. Open your MT4 and you will find the Firing Pins.ex4 and stc.ex4 in your navigator window in the Custom Indicators folder. The template is in the templates drop-down menu, and we'll get to that a little later in the guide.

Please read the Rules of Engagement all the way through. It only takes a little effort to do so. Not doing so can cause you to make unnecessary mistakes which will cost you in the long run. Take this seriously. Don't rush. Follow the instructions. Ask questions if you need clarification after going through the material.

We're here for you if you need anything. All we ask is you do your part.

support@AutoFxFiringPin.com

General Description

FiringPin is a manual method for trading Forex and this document will guide you through the trading process. The methodology is based on breakouts of micro support and resistance areas within a trend.

So, in a way, it is both a breakout and a trend following method. The Rules of Engagement will show you what to look for in terms of market conditions, and how to trade on a breakout above or below price bars, called Firing Pins, marked by the Firing Pins indicator. In addition, you'll receive instruction on how to take advantage of opportunities to trade against the trend when retracements occur. Plus, will give you hints on trade management setup through exit.

Features

- Easy to learn and use
- Driven by price action
- Thoroughly tested for the hourly time frame
- Trades on breakout of "Firing Pins"
- Follows the trend

Module 1: Initial Setup

This module of the Rules of Engagement shows you how to set the MT4 up for trading.

Tasks You Perform:

- Determine your risk
- Select the appropriate Firing Pin
- Move "Firing Lines" into position
- Determine initial stop loss and profit target pips
- Calculate correct position size for your risk
- Monitor markets for breakout
- Enter trades when conditions are met
- Submit initial stop loss and profit target orders
- Automatically move trailing stop loss
- Lock in profit at specific Profit Protection points
- Exit trades

The one-hour bars are ideal for trading with this method because the time frame is short enough to provide frequent trading opportunities, yet long enough that you don't have to sit at your computer all the time. Because of this, you can check on conditions via a quick visual inspection. If the market is not offering the proper conditions, you can go on to other things and check back later.

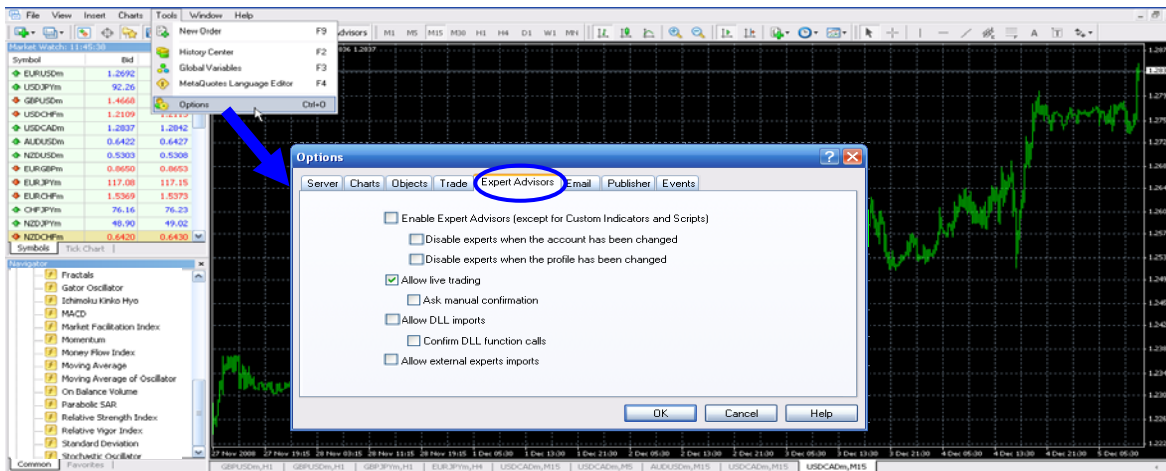
Initial Setup

1. Enable Live Trading

When you first open up your MT4 platform, or when you add a new chart, the charts will look something like the one below. It doesn't matter whether your account is live or demo, you will not be able to execute trades without enabling live trading.

To do so, click on the Tools menu and select Options. After the Options dialog box opens, select the Expert Advisors tab and check Allow Live Trading. When finished, click OK.

Allow live trading



2. Add a New Chart

The default charts for a new MT4 platform are EURUSD, USDCHF, GBPUSD, and USDJPY. They often appear in a horizontal cascade with four charts in the charting window, as in the illustration below. To display only one chart at a time, either click on the Maximize icon in the upper right corner of a chart, or double-click on the chart's tab at the bottom of the charting window, as illustrated below.



The result will be a single chart in the charting window. In this guide, we're going to be working with the EURUSD currency pair on the hourly time frame, so we'll need to open a new chart. In the upper left corner of the platform is an icon with a green "+" sign. Click on the icon to open the "New Chart" menu.

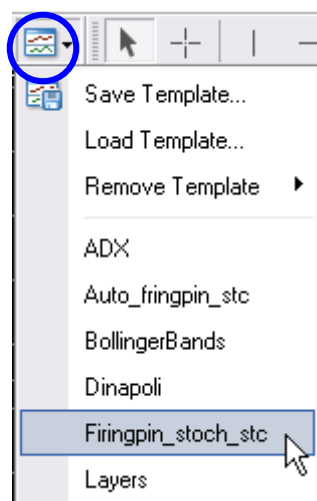
Locate and select EURUSD. A new chart will appear in the window. Make sure the hourly time frame (H1) is selected (blue circle). If not, just click on H1 in the time frame menu. Your new chart is now in the charting window in its raw form and is ready for the next step: Applying the template.



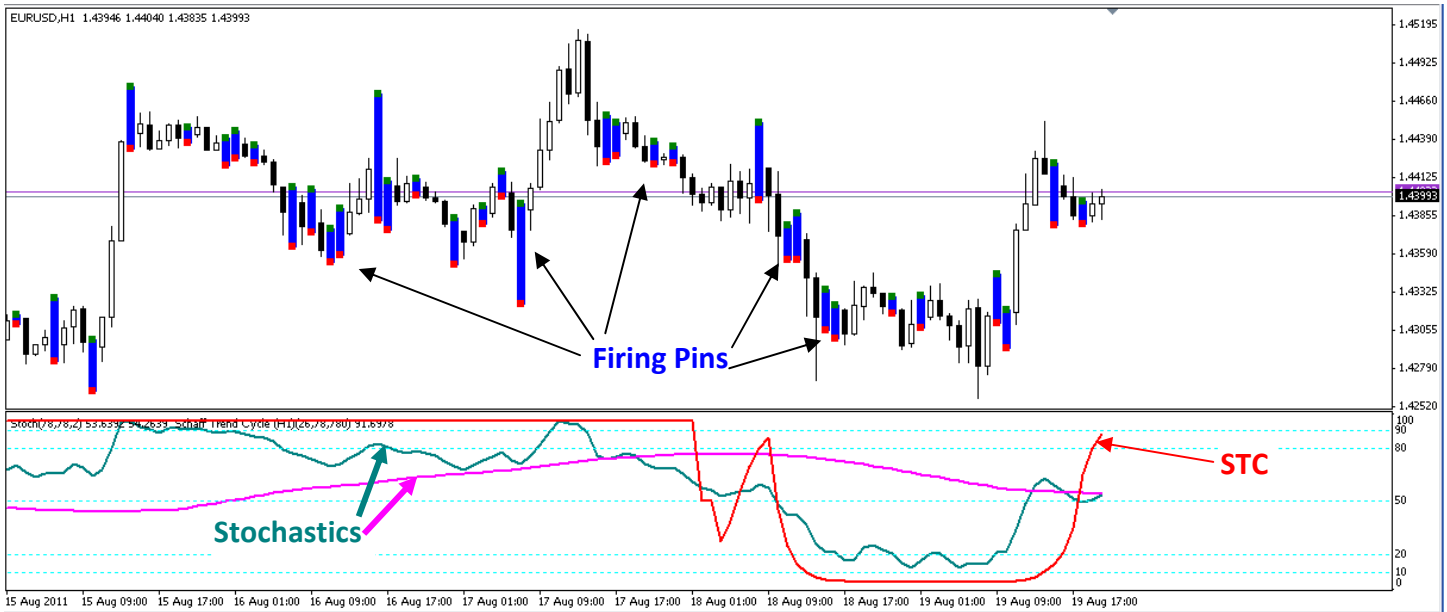
3. Attach Firing Pin Template to Chart

At this stage of the setup process, the indicators you need for trading are not yet on the chart (FiringPins, Stochastics, and STC). The easiest way to set the chart up is to attach the "Firingpin_stoch_stc" template.

To attach the template, click on the Templates icon in the menu bar and select "Firingpin_stoch_stc." The template will automatically load the correct indicators.

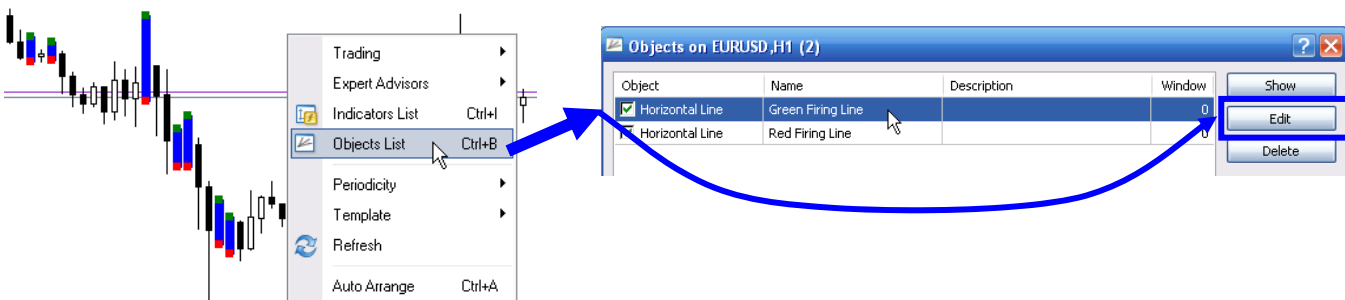


After attaching the template, your chart will most likely look like the illustration below. Although the Firing Lines are present in the template, they may not be visible in the charting window. This is because you need to enter a starting price to activate them.



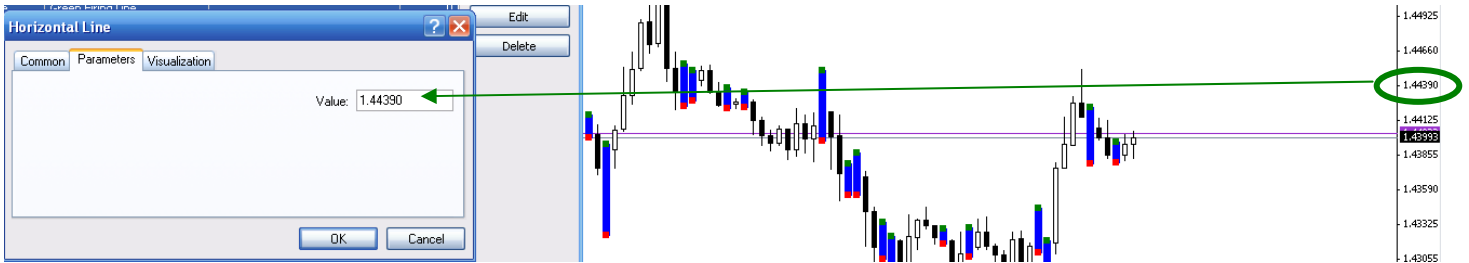
NOTE: Although the Firing Lines are present in the template, they may not be visible in the charting window. This is because you need to enter a starting price to activate them.

To do so, right-click on the chart and select Objects List. Then, either double click on the Firing Fine, or highlight the Firing Line and click on Edit.



This will open the Objects box for the chart.

Open the Parameters tab. In the upper right quadrant of the box you will find a Value cell. In that cell, enter a price that will allow the Firing Line to display on the visual chart area. Any price that is visible on the vertical scale will do. It's generally more convenient to use a price that is in the vicinity of the most recent Firing Pin. In the example below, the price of 1.44390 works fine.

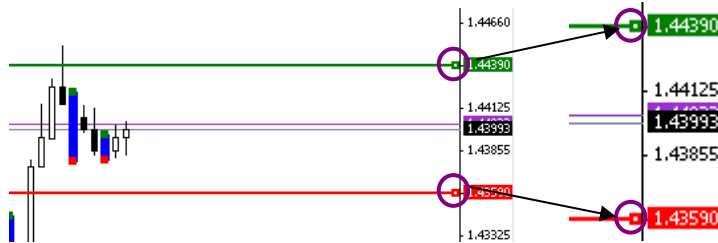


After you enter the price, click on OK. The Firing Line will appear on the chart, and the Objects List will be available for editing the remaining line. Repeat the process above, and when you are finished close the Objects List. Your chart should now look something like this:



4. Activate Firing Lines for movement

First, double-click on both Firing Lines so that the small boxes at each end appear. With the boxes present, the Firing Lines are activated for movement and you can click, hold, and drag them where you want to. If the boxes are not at the ends of the Firing Lines, you will not be able to move them at all.



This concludes Module 1. You allowed live trading, added a new chart, used the template to attach FiringPin's indicators, and activated the Firing Lines.

Module 2 introduces you to trade setup, entry, and exit.

Module 2: Trade Setup, Entry, and Exit

This module takes you step-by-step through a trade from setup to exit. You will see how simple this method really is.

There are three components to the Firing Pin method:

1. the Firing Pins
2. the Firing Lines and
3. a combination of long-term Stochastics and the Schaff Trend Cycle (STC) Indicator

Firing Pins

The Firing Pins represent areas of market indecision, where neither buyers nor sellers were in control. Because of this, they become individual areas of micro support and resistance. Firing pins have a blue body with a green box at the high and a red box at the low. Below is a group of firing pins all hanging around the same level, indicating a highly indecisive market.



Firing Lines

The Firing Lines are two horizontal lines that you overlay on the price chart—one green and one red, to match the upper or lower part of the Firing Pins for long and short trades, respectively. These lines provide a visual reference point for the current levels of micro support and resistance.



Stochastic and STC Indicators

Data from the interplay between the Stochastic and STC indicators provide you with information on both long- and short-term market direction. Together they present a rolling estimate of the market direction on a daily chart while maintaining the shorter term characteristics of hourly price movement.

The FiringPin trading methodology subscribes to the old adage, “The trend is our friend.” Consequently, the combination of these two indicators is ideal for this approach to trading the Forex, as we are usually trading in the direction of the dominant trend. However, there are times when you can trade against the trend, taking advantage of a retracement or probable change in market direction.

Firing Pin Rules of Engagement: Trading with the Method

Since you will be following a definite set of rules for determining market direction and either trading with or against the trend, we'll take a look at exactly what those rules are.

General Rules:

There are two General Rules for trading with the Firing Pin method:

- Trade in direction of Stochastic
- Modify trade according to STC

The single, overarching rule you should follow is to trade in the direction of the Stochastic: long when the Stochastic is above its signal line, and short when the Stochastic is below its signal line. Two possibilities stem from that single rule: trading with the trend and trading against the trend.

The second rule, "modify the trade according to the STC," is used only when trading against the trend. We'll get to that a little later in this module.

Trading in the direction of the trend

This strategy offers high-probability entries, as both the STC and the Stochastic are in agreement.

1) Trade only long if

- the Stochastic line is above the signal line AND
 - the STC is above 25 and rising OR
 - the STC is flat near the top of the scale

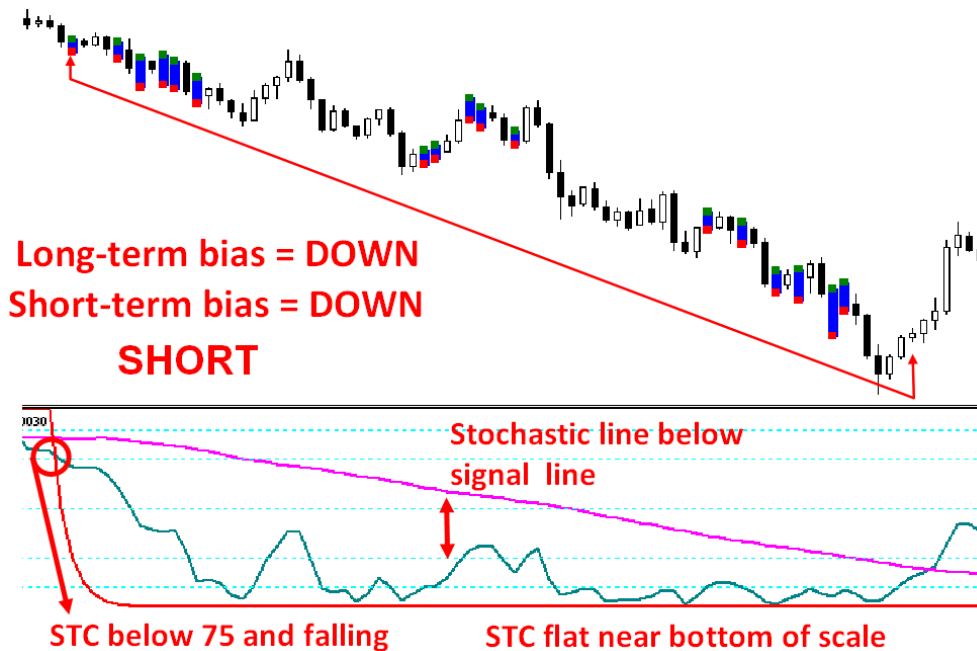
Using Stoch and STC together: Going with the Trend



In the scenario above, the dominant direction is up, as the Stochastic is above the signal line, and the STC rose above 25 and went flat at the top of the scale. Under those conditions, setting up for long trades offers a high probability of success.

2) Trade short if

- the Stochastic line is below the signal line AND
 - the STC is below 75 and falling OR
 - the STC is flat near the bottom of the scale



In the scenario above, the dominant direction is down, as the Stochastic is below the signal line, and the STC fell below 75 and went flat at the bottom of the scale. Under those conditions, setting up for short trades offers a high probability of success.

Trading against the direction of the trend

This strategy takes advantage of changes in market direction or possible retracements

1) Trade long if

- the Stochastic line is above the signal line AND
 - the STC is flat near the bottom of the scale

Using Stoch and STC together: Going against the Trend

Long-term bias = DOWN

Short-term bias = UP

LONG

Retracement or
early warning of
change in direction



Stochastic above signal line



STC flat at bottom of scale

When the STC is flat near the bottom of the scale and the Stochastic is above the signal line, it is an indication of a possible retracement or an early warning of a change in direction. Because the STC, which represents the long-term market direction, does not agree with the Stochastic direction, we invoke General Rule number 2: Modify the trade according to the STC. Since retracements can be rather short-lived, cut the profit target in half to anticipate the retracement.

2) Trade short if

- the Stochastic line is below the signal line AND
 - the STC is flat near the top of the scale

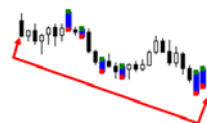
Using Stoch and STC together: Going against the Trend

Long-term bias = UP

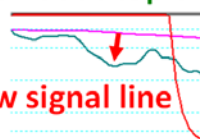
Short-term bias = DOWN

SHORT

Retracement or
early warning of
change in direction



STC flat at top of scale



Stochastic below signal line

When the STC is flat near the top of the scale and the Stochastic is below the signal line, it is an indication of a possible retracement or an early warning of a change in direction. Again, since retracements can be rather short-lived, cut the profit target in half according to General Rule 2.

Review

Now we’re going to review the trading rules. And we’re also going to see how general rule number two comes into play. General rule two says modify your trade according to the STC. We’re going to see how that works.

First, the table is divided into four quadrants. Two are for trading with the trend and two are for trading against the trend.

Trade with the trend	Trade against the trend
Long if:	Long if:
the Stochastic line is above the signal line AND the STC is above 25 and rising OR the STC is flat near the top of the scale	the Stochastic line is above the signal line AND the STC is flat near the bottom of the scale cut the profit target in half
Short if:	Short if:
the Stochastic line is below the signal line AND the STC is below 75 and falling OR the STC is flat near the bottom of the scale	the Stochastic line is below the signal line AND the STC is flat near the top of the scale cut the profit target in half

Upper quadrants of table

Let’s start with the upper two quadrants.

When trading with the trend or trading against the trend, we expect the market to rise if the Stochastic is above its signal line.

With the trend long

Trade long with the trend if the STC is above 25 and rising or if the STC is flat against the top of the scale and both indicators are in agreement as to direction. In this case, there are no modifications to make.

Against the trend long

However, we'll be trading against the trend if the STC is flat against the bottom of the scale while the Stoch is above its signal line.

In this case, we follow General Rule 2 and modify the trade, since the STC does not agree with the Stochastic. We do so by cutting the profit target in half. This is because retracements tend to run out of steam more quickly than trends do.

Lower quadrant of table

Looking at the bottom two quadrants gives us the rules for trading short with and against the trend.

With the trend short

When trading with the trend or trading against the trend, we expect to go short if the Stochastic is below its signal line.

Trade with the trend if the STC is below 75 and falling or if the STC is flat against the bottom of the scale, since both indicators are in agreement as to direction. In this case, there are no modifications to make.

Against the trend short

However, we'll be trading against the trend if the STC is flat against the top of the scale while the Stochastic is below its signal line.

In this case, general rule two comes into play and we modify the trade because the STC does not agree with the Stochastic. Again, we do so by cutting the profit target in half because retracements tend to run out of steam more quickly than trends do.

General rules: Recap

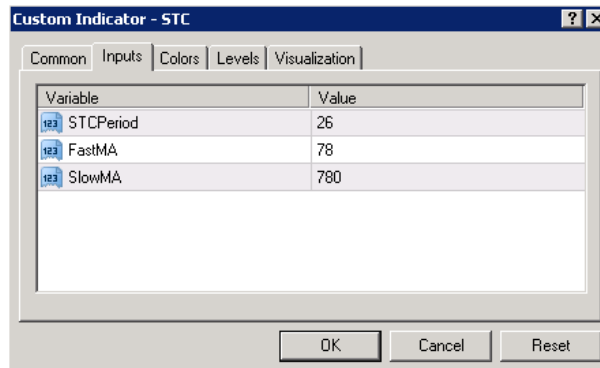
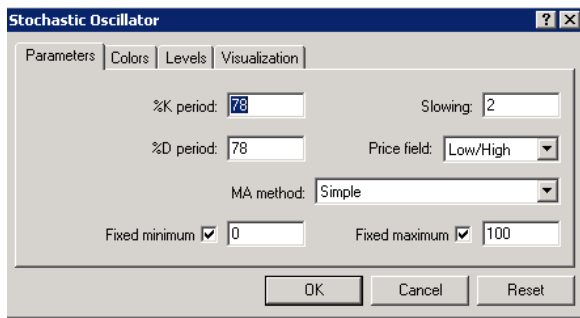
Again, all of this can be boiled down to the two general rules:

- Trade in the direction of the stochastics
- Modify the trade according to the STC.

And these two rules will help you locate high-probability trading areas.

Stochastics and STC Settings

Below are the input parameter settings for both the Stochastics and STC indicators.



Setting Up For the Trade

The Firing Pin method trades on breakouts above or below the price level determined by the interaction among the current price, the Firing Pins, the Firing Lines, and the Stochastics-STC combination. Since that is the case, the following illustrations will define the term “breakout” as used in this approach.

It takes three bars for a trade to be taken:

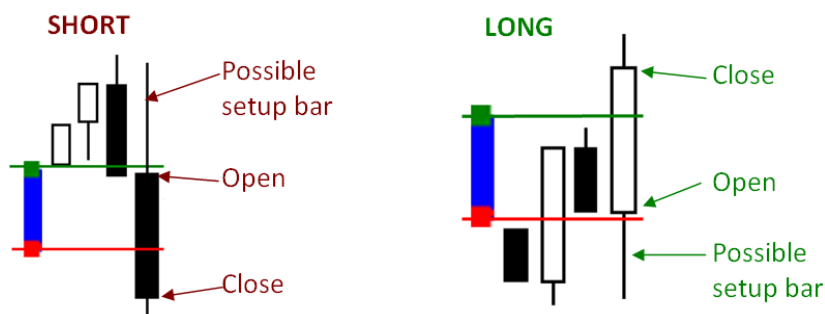
1. **The first bar is the Firing Pin bar.** In setting up for a short trade, locate the red Firing Line at or below the red box at the bottom of the most recent Firing Pin. Conversely, when setting up for a long trade, match the green Firing Line to a location at or above the green box at the top of the Firing Pin. The Firing Lines mark the areas of micro support and resistance the Firing Pin represents.



2. **The second bar is the setup bar.** It is a very important bar because it determines whether or not a trade will be entered, according to the following four requirements:

a) Setup bar open and close

For short trades, the setup bar must open above the red line and close below the red line. For long trades, it must open below the green line and close above the green line.

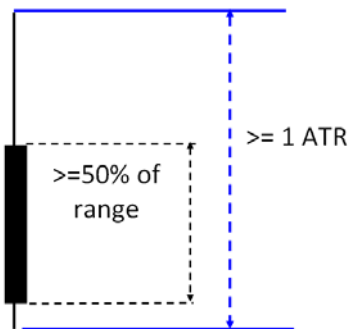


b) Setup bar range (length)

Also, the setup bar's high to low range must be at least one ATR (average true range) in length. In other words, if the bar is less than average length, then it disqualifies the entry. For manual trading, a visual estimate of the setup bar's length is good enough. If it is as long as or longer than the bars around it, then it meets the length requirement.

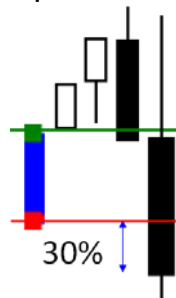
c) Setup bar body size

The body of the possible signal bar must make up at least half of the range. Again, a visual inspection is good enough, and it looks like the body here is at least 50% of the bar's range.



d) 30% of Body extends beyond firing line

Finally, at least 30% of the setup bar's body must extend below the red line for short entries, or above the green line for long entries. Again, a visual inspection is sufficient. If it looks like roughly more than a quarter of the bar's body extends beyond the line, the bar meets this requirement.



The above four requirements define the term "breakout" as used in this method.

3. The third bar is the entry bar. If the signal bar's requirements are met, enter the trade at the open of the entry bar, or a soon thereafter as possible. Since entry requires all three bars,



Special Note on Signal Bar: The SIGNAL BAR Does NOT have to be the NEXT bar after the FIRING PIN BAR. It can be several bars away from the FIRING PIN BAR.

The important thing to remember is that the Firing Lines are matched up with the most recent Firing Pin that will allow the current price to be between the two Firing Lines, as shown in **Illustration A**:

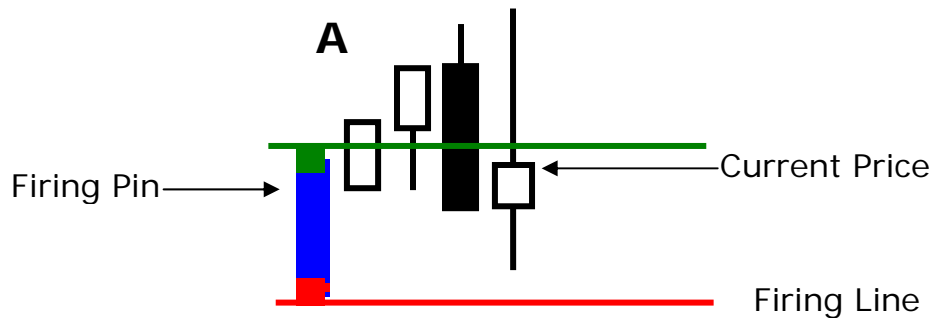
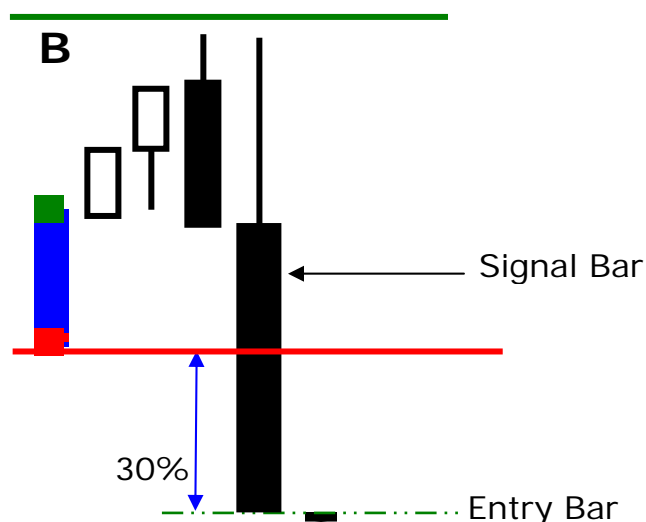


Illustration B is a continuation of the situation depicted in **Illustration A**, only some time has gone by. Notice that the signal bar has now crossed the red firing line and is extending beyond it. When that happens, entry will be signaled as long as the four criteria for a signal bar are met:

- 1) For short trades, the setup bar must open above the red line and close below the red line. For long trades, it must open below the green line and close above the green line.
- 2) The signal bar's range from high to low must be at least one ATR long
- 3) The body of the bar must be greater than or equal to 50% of the range
- 4) At least 30% of the body must extend beyond the Firing Line



A Firing Pins Trade from Entry to Exit

The following illustrations walk you through the steps to take in managing a trade as you go from set up on through to exit. In all of the examples, we'll use the term "breakout" as defined above.

In the examples, we'll be trading EURUSD with a 60-pip stop loss and a 120-pip profit target.



In **Illustration A**, you have just opened your chart and activated your Firing Lines and are waiting for a new Firing Pin to form. You see that the Stochastic is above its signal line, and that the STC is flat against the top of the scale. You infer that the market direction will most likely be upward.

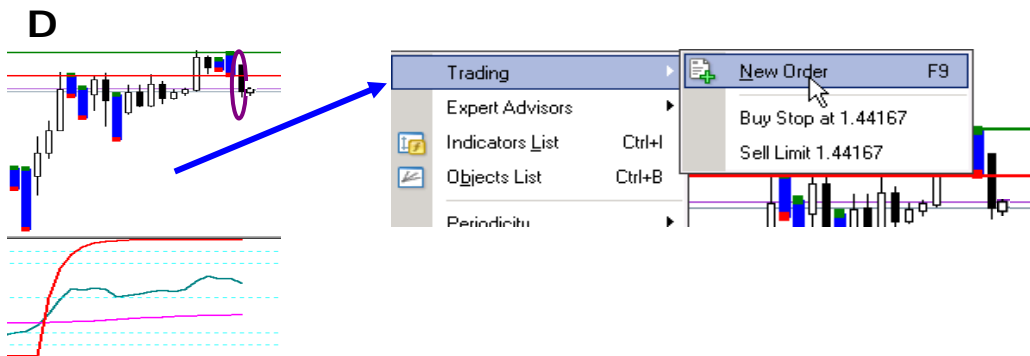


Illustration B shows that a new Firing Pin has formed and that you have repositioned the Firing Lines. Having previously determined that the overall market direction is upward, you decide on a 60-pip stop loss and plan to set a 120-pip profit target if the breakout is above the green Firing Line. However, since you cannot be 100% certain that the market will continue upward, and since you want what the market wants, you plan to set a 60-pip profit target if the market reverses its current direction, and price breaks out below the red Firing Line.

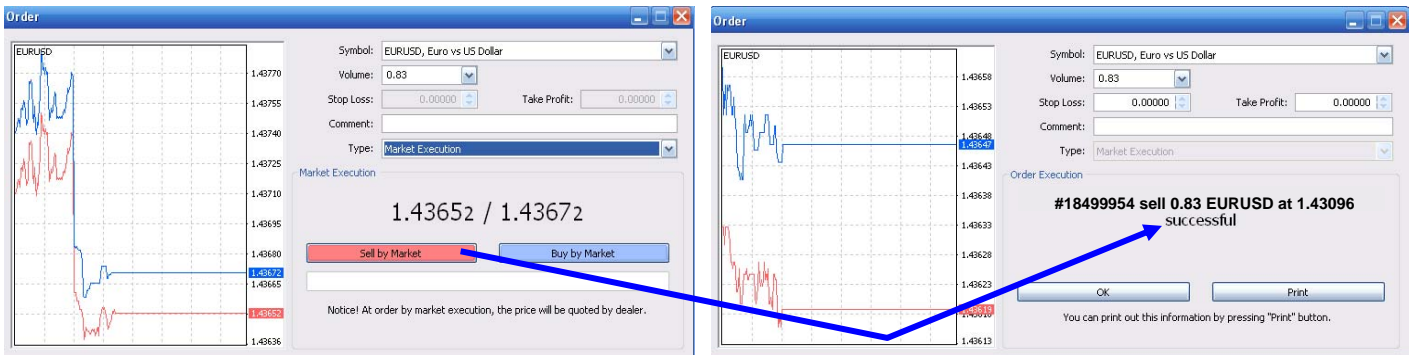


In **Illustration C**, a new Firing Pin has formed and you have repositioned your Firing Lines. And now a potential setup bar is forming (purple oval). At this stage, although price has clearly broken the red Firing Line, it could reverse itself and end up closing back above it, resulting in a false breakout. That is why you have to wait until the setup bar is completely formed before triggering a trade.

Illustration D shows the completed setup bar (outlined in purple). You were at your computer shortly after the setup bar closed and were able to enter the trade during the early stages of the entry bar, at 1.43096. You did so by right-clicking on the chart, selecting Trading, and then clicking on New Order,



which brought up this order box.



You had previously calculated a position size of 0.83 mini lots using the “Magic Formula” found in Module 3: Position sizing and money management. **NOTE:** You must remember to enter your position size in the Volume cell. Otherwise you’ll end up with either the default position size of 1.00 lots, or with a previous position size. And neither of those may be correct for this trade.

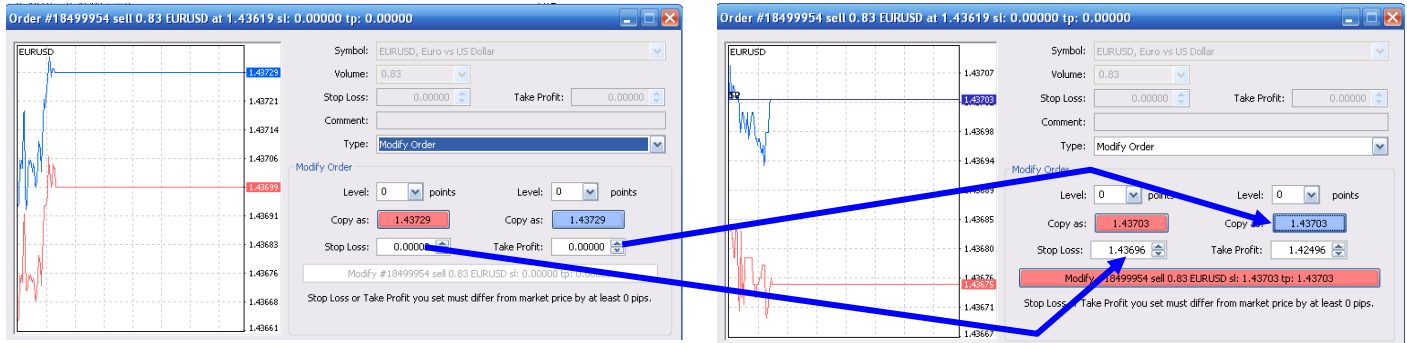
To trigger the trade, click on the appropriate position. In this case, you’re going short, so you click on Sell by Market. After doing so, the order is confirmed. Click OK to close the box.

Now you need to set your stop loss and profit target. You had previously planned to use a 60-pip stop loss with a 120-pip profit target for a long trade, and a 60-pip stop loss with a 60-pip target for a short trade. To do so, right-click on the trade in the Terminal window and then select Modify or Delete Order, as in the illustration below.

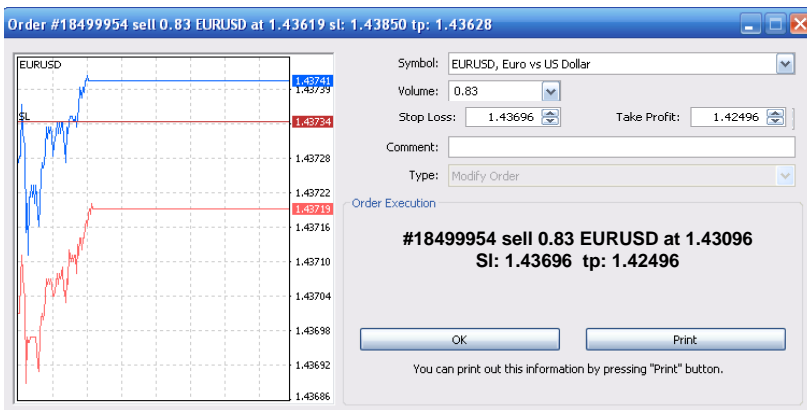


An Order box will pop up. Since your stop loss is 60 pips and you are in a short position you would add 60 to your 1.43096 entry price to get your stop loss. The result is 1.43696. Your original profit target was 120 pips, but since you are in a short trade going against the trend, General Rule 2 requires you to reduce the profit target to one-half, or 60 pips.

So for a short position, you would subtract the 60 pips from your entry to get a target of 1.42496. Then, enter the values into the appropriate sells in the Order box.

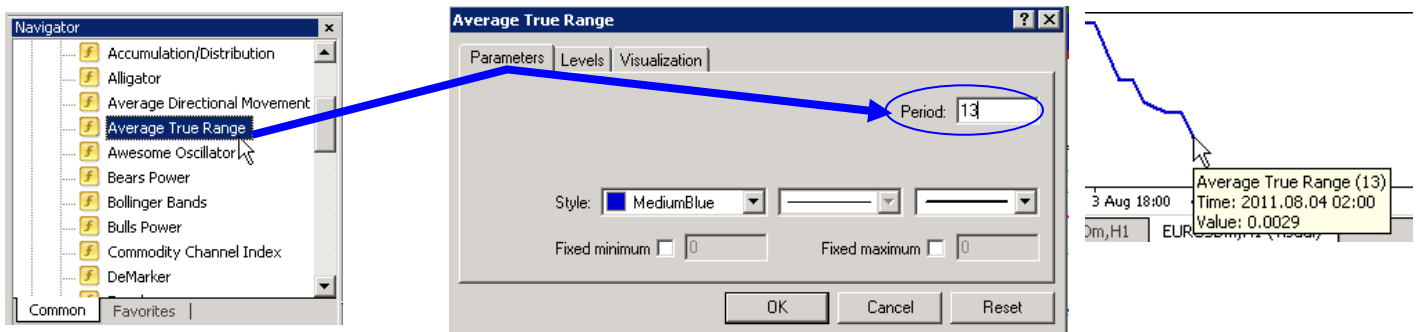


When finished, press the Modify bar and your confirmation will be displayed. Click OK to close the box.

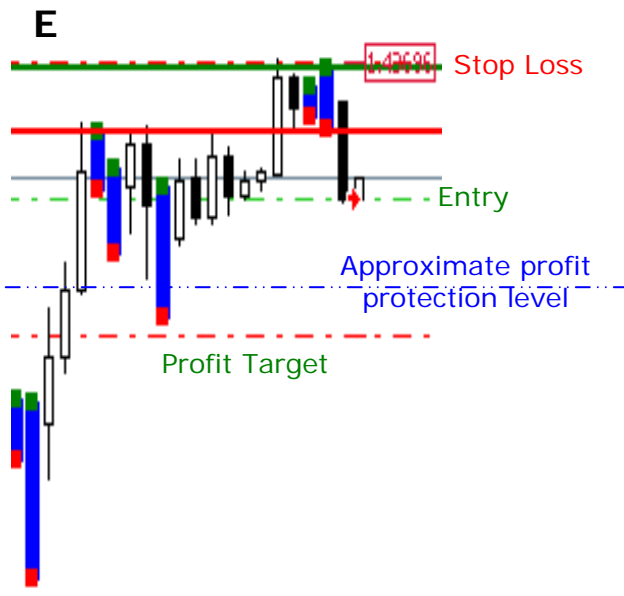


After you have set your stop loss and profit target, it's time to estimate the price at which you'll move your stop loss for the first level of profit protection. This is done by adding a factor of 1.5 ATR to the entry for long positions and subtracting 1.5 ATR from the entry for short positions.

To determine the current ATR, go to your Navigator window and look under Indicators for Average True Range. Double-click on the indicator to open it, and then open the Parameters tab. Set the Period value to 13, which will give you a 13-period ATR.



Click OK to close the indicator properties box. The ATR indicator will appear in an indicator window below the Stochastics and STC. Place your cursor over the end of the ATR indicator, as shown above, and you will be able to get the value. In this case, the ATR is 0.0029 or 29 pips, so 1.5 ATR would be (1.5×29) or about 44 pips.

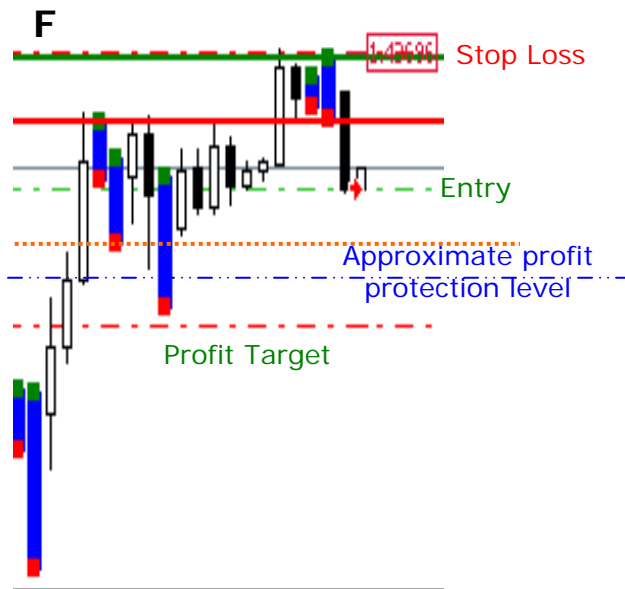


Recall that entry was at 1.43096. Since we're going short, we would subtract 44 pips (0.00440) from the entry. Thus, $(1.43096 - .00440) = 1.42656$. So when price reaches 1.42656, you would move your stop loss to breakeven plus two pips.

In **Illustration E** to the right, we drew a dotted blue line at the 1.42656 price level just for reference. When price reaches that level, you would move the stop loss will jump to breakeven plus two pips.

It is also time to estimate your secondary profit protection level, which is simply 75% of your profit target. In this case, the profit target is 60 pips, so $(60 \times 0.75) = 45$ pips. When price moves to 45 pips of profit (or to 1.42646), you would move the stop loss to a point about 15 pips from the profit protection level.

Thus, 45 pips minus 15 pips would be 30 pips. At this stage, then, you are protecting 30 pips of profit, so you would move your stop loss to a point 30 pips from the open. In this example, the open is 1.43096, so $(1.43096 - 0.00300)$ would be 1.42796.



It appears that in this case, the initial profit protection level and the secondary profit protection level, at one pip's difference, are almost the same.

So you would use the same level for both, in which case, you would move your stop loss to the secondary profit protection level of 1.42796, as in **Illustration F** to the right. The dotted orange line represents the area to which you would move your stop loss.

As the trade progresses, price closes beyond the profit protection level two bars following entry, as shown in **Illustration G**. You move the stop loss to protect 30 pips of profit.

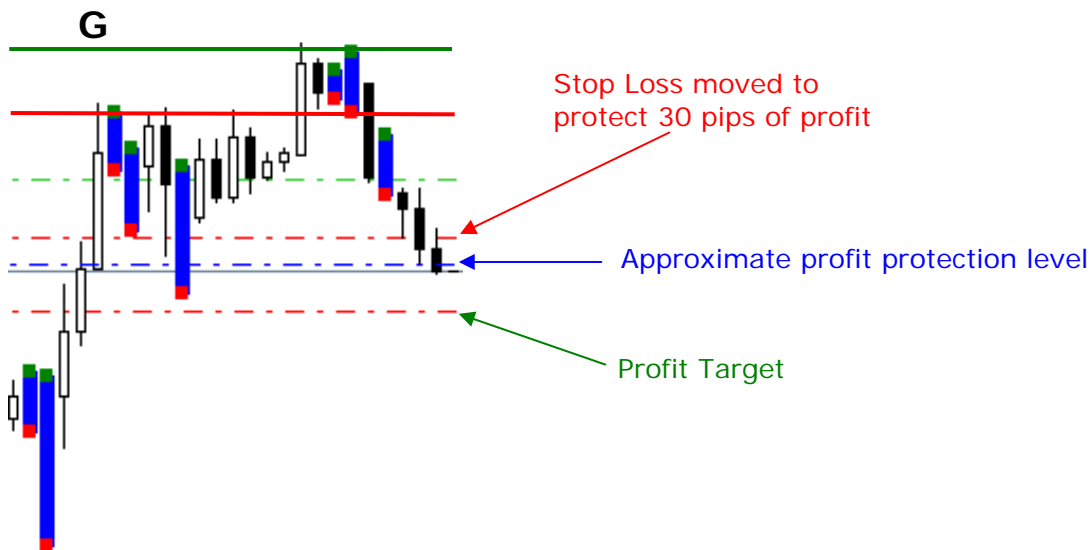


Illustration H shows the trade stopping out at the profit protection stop loss for a gain of 30 pips.



Now let's take a look at another trade. You are still trading EURUSD and are using a 60-pip stop loss with a 120-pip profit target. You've been away from the computer, and you return to the situation in **Illustration I**.

The STC is flat against the bottom of the scale and the Stochastic is below its signal line. This indicates that the market's long- and short-term direction is down.



In **Illustration J**, you reposition your Firing Lines so that the green Firing Line is matched with the green box on the most recent Firing Pin. However, you locate the red Firing Line so that it is below the current price.

So now you are in a position to want what the market wants. If the market continues downward, your red Firing Line is there for the breakout. If the market retraces, your green Firing Line is at the ready.



In **Illustration K**, there are about three minutes remaining in the current bar. A quick visual inspection tells you that it will fulfill the requirements for a setup bar to the long side even if it closes several pips lower. You are waiting for the close before you make your final determination.

However, you do know that if this is a true breakout, that you will be trading against the trend, so you are prepared to cut your profit target from 120 pips to 60 pips.



Illustration L. Since you were at your computer at the open of the next bar, you determined that the previous bar was a valid signal bar and manually triggered the trade, entering at 1.41626 (purple circle). You set both your stop loss your profit target at 60 pips.

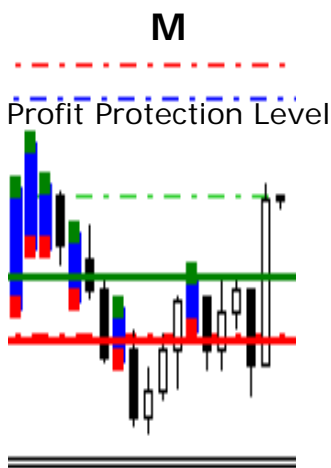


Illustration M. You are now at the point where you need to estimate your primary and secondary profit protection points. For the primary point, you take 1.5 ATRs and add that to the entry. You found the current ATR to be 35 pips. So (1.5×35) is about 53 pips. You determine that your secondary point will be at 75% of the profit target pips, or (60×0.75) , which comes out to 45 pips. In this case, you would use the lesser of the two, and you add 45 pips to your 1.41626 entry and draw a dotted blue line at the 1.42076 price level. You will move your stop loss to 15 pips below the line when price closes at or beyond it.

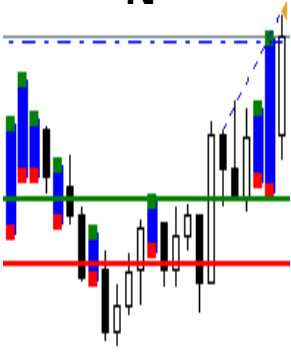
N

Illustration N. Although the previous bar touched the profit protection level, it did not close beyond it, so you did not move your stop loss to 15 pips below it. The current bar broke beyond the profit protection point and touched the profit target. The position was closed at that point for a gain of 60 pips.

The table below recaps the calculations for Primary and Secondary Profit Protection and stop loss placement.

Long	
Item	Rule
Primary Profit Protection	Add 1.5 ATR to entry price. Move stop loss to break even plus two pips when this price is touched.
Secondary Profit Protection	Add 75% of profit target pips to entry price to establish protection point. Move stop loss to 15 pips below protection point when price closes above it.
Exceptions	If the primary profit protection point is closer to the profit target than the secondary protection point, disregard the primary protection point and use only the secondary. Move stop loss to 15 pips below protection point when price closes above it.

Short	
Item	Rule
Primary Profit Protection	Subtract 1.5 ATR from entry price. Move stop loss to break even plus two pips when this price is touched.
Secondary Profit Protection	Subtract 75% of profit target pips from entry price to establish protection point. Move stop loss to 15 pips above protection point when price closes below it.
Exceptions	If the primary profit protection point is closer to the profit target than the secondary protection point, disregard the primary protection point and use only the secondary. Move stop loss to 15 pips above protection point when price closes below it.

That's all there is to trading with the Firing Pins method.

In this module, you learned the trading rules you need to follow and how to determine a breakout. You have also seen how to manage trades, especially those that go against the trend.

Be sure that you start trading with a demo account before going live. Only after you are satisfied with your demo results, should you move on to live trading.

When you begin live trading, start with a small risk—perhaps 0.25% per pair, up to an aggregate of 1%—and then gradually increase the risk as you gain confidence. This strategy will save you many a sleepless night.

You are now almost ready to get started with your trading. But before you go on, you need to carefully absorb and consider the final module, which discusses money management and position sizing. It is the most important part of the system, so please read it because it is what will keep you in the game.

Module 3: Position sizing and money management

We recommend trading at a max of 1% per trade and 4% total on all currency pairs you're trading. If you are trading only one calibrated pair, you could trade at 4%. If you are trading two calibrated pairs, you could trade each at 2%. If you are trading 3 calibrated pairs, you could trade each at 1.33%. Finally, if you are trading 4 calibrated pairs, you could trade each at 1%. **HOWEVER**, you, and only you, can decide the amount of risk that is best for your circumstances and trading style.

“Know when to hold ‘em, know when to fold ‘em...”

As the lyrics in the old Kenny Rogers song suggest, knowing exactly when to get out of the market is just as important, if not more important, than deciding where to enter. In other words, you need a way to know ahead of time:

- 1) what your ultimate risk will be,
- 2) what your initial stop loss will be, and
- 3) when to take profit.

These points are at the heart of capital preservation and risk control—or in other words, sound money management practices. Once you decide on the number of pips in your stop loss, you can determine your profit target by making sure that it is equal to or greater than your stop loss pips. As for knowing what your ultimate risk will be, that topic will be addressed as we proceed. And by the end of this module you will see how FX Firing Pin automatically “knows when to hold ‘em, know when to fold ‘em...”

Does Size Matter?

This question has been around since long before David & Goliath and it conjures up a host of possible responses. For traders, this is a pivotal question. The answer is, “Yes, size DOES matter.” And you’ll discover why as we progress through this module.

In the meantime, to illustrate the point, imagine watching a video that describes entry into a trade, where to place the stop loss, and where to exit. The narrator might say, “So, since we’re going short in this trade, we’ll place our stop loss just above the high of the previous bar. Let’s see...it looks like it’s about 50 pips. Also, we want to make a profit of at least two times our stop loss value, so we’ll set our first profit target at 100 pips.”

But what’s missing in the narrative? We’ll answer that in a minute, but for now, think about it...

Far too many traders equate risk with the SIZE of the stop loss. For example, if you are trading in standard lots of EURUSD, then every pip is worth \$10. So, when the narrator says, “...it looks

like it's about 50 pips," the first thing that hits you is, that's a \$500 stop loss! If you have a \$5,000 account, that represents a hefty risk of 10% of your capital and it's even more if you plan on trading 2 lots.

That kind of risk might be too rich for your blood, so you decide that maybe trading mini lots would be better. That way, at least, with a 50-pip stop loss you would only be risking \$50 per mini lot, or 1% of your capital for each lot traded.

However, what if the probability for a handsome profit is higher if your stop loss is 100 pips? If you go for it, you're now risking \$100 per lot.

This is the dilemma inexperienced traders face quite often as they try to figure out how to stay in the game without losing everything. They have no way of knowing what their ultimate risk will be.

Two Key Elements

There are two key elements that will greatly influence your ability to profit with ANY system. In fact, they are the most important factors in the life of every trade. They answer the question, "Does size matter?"

These two key elements are:

1. the SIZE of your trading account, and
2. how you decide your position SIZE

These two components are interrelated and inseparable. Without integrating your initial account size or your available margin size with a sound position sizing strategy, your trading results will be less than stellar.

How Do I Know What My Ultimate Risk Will Be?

Your ultimate risk is really determined by your position size—that is, by the number of lots you are trading. That is what was missing in the video's narrative. You almost never hear anything about position size, yet it lies at the very core of your ability to survive and flourish as a trader.

As pointed out earlier, many traders equate risk only with the distance between the stop loss and the entry point, or in other words, with the number of pips in the stop loss.

For example, if they are trading a mini account and want to risk \$50 on a particular trade, they might set their stop loss 50 pips from entry. However, they may then enter the trade with a 2-mini lot position size. They don't consider that trading two mini lots means each pip gained or lost will have an approximate value of \$2.00. So if they are stopped out, they will actually lose \$100, or twice as much as they had planned.

The “Magic” Formula

This formula was held secret and sacred for many years by a group of very successful traders. Van Tharp published it, and recommended it as a highly effective approach to determining ultimate risk. It is the Percent of Balance model.

Let’s assume that you have a mini-account with a \$2,500 closed trade balance, and you want to use a stop loss of 47 pips and risk no more than 1% on your next trade. The formula for determining your position size from a percentage of your account balance is:

$$\text{Position Size} = (\text{AcctBal} * \text{Pct}) / \text{SL} / \text{PipVal}$$

AcctBal = your closed-trade account balance—you can also use your available margin balance

Pct = the desired percentage of your account you are willing to risk

SL = your stop loss in pips (the difference between your entry and your stop loss)

PipVal = the value of a mini pip (one-tenth the value of a standard pip)

You can get this value by using a pip value calculator. There are hundreds available free online. The link below will take you to one of them:

<http://www.goforex.net/pip-calculator.htm>

Calculating Your Ultimate Risk

Let’s say that you have a set up for a trade in EURUSD. Any pair with USD as the quote currency (the second currency in the pair) has a standard pip value of \$10.00. If you didn’t know this, you could get it quickly with a pip value calculator. Since you are trading a mini account, the value of a mini pip would be \$1.00. With these two values—pip value and account balance— along with your stop loss pips, you can calculate your position size.

$$(2,500 * .01) / 47 / 1 = 25 / 47 = 0.53 \text{ mini lots}$$

If you are an experienced trader and you decide to risk a more aggressive 2.5% of your account balance, your ultimate risk would be calculated as follows:

$$(2,500 * .025) / 47 / 1 = 62.5 / 47 = 1.33 \text{ mini lots}$$

Again, since you’re trading mini lots, and since one pip for a full mini lot is worth \$1.00, your position is equal to \$1.33 per pip. This means that your **ultimate risk** is your position size multiplied by your stop loss pips times \$1.00 (the value of a full mini pip), or $1.33 * 47 * \$1.00$, which equals \$62.51.

So now you know that if your stop loss is hit, you will be losing \$62.51, your ultimate risk.

With the magic formula, you now know what your ultimate risk will be, what your initial stop loss will be, and when to take profit.

Again, knowing your ultimate risk, and knowing that you are the one who controls it, leads to peace of mind.

Powerful Model

The Percent of Balance money management and position sizing model is extremely powerful because it is flexible. For example, going back to a question in an earlier scenario, “But what if the probability for a handsome profit is higher if your stop loss is 100 pips [rather than 50 pips]? If you go for it, you’re now risking \$100 per lot.”

With the Magic Formula, you can actually set your stop loss to 100 pips without changing in any way your ultimate risk. Here’s why:

Assuming a EURUSD trade with a \$2,500 mini account and a 1% risk factor, your ultimate risk will be \$25. In terms of a 50-pip stop loss, your position size would be 0.5 lots. Your 100-pip stop loss at dollar risk of 1% of your account balance would be 0.25 lots.

So you can still take the trade at 100 pips because your dollar risk doesn’t change.

Another important aspect of the Percent of Balance model is that as your account grows in SIZE, your position SIZE increases; and this, in turn, influences the SIZE of your profits. Best of all, you always have peace of mind in knowing what your ultimate risk on any trade really is.

NOTE: We recommend that you risk no more than 1% of your account balance on any one trade, and no more than 4% in the aggregate for all the pairs you are trading.

For example, if you are trading five currency pairs, then we recommend setting your PercentofBalanceRisk parameter to 0.8 for each pair.

Also, when you begin trading live, with real money, start out risking 0.25% for any one pair, and 1% in the aggregate for all trades. This is a good way to break into live trading because you can learn to control your emotions, follow your plan, and avoid the temptation to tweak the system while still being able to sleep at night.

This concludes the module on money management. NOW, it’s time to begin trading.

I traded this system manually for 8 months. While it was very rewarding, it was also very time-consuming. I'm very grateful to now be using our newly developed FX Firing Pin AutoTrader that completely automates this process.

If you'd like to completely automate this trading method:

- **so that you don't have to do any of the above calculations**
- **so you don't have to be in front of your computer for hours on end**
- **so you can catch many more moves because the AutoTrader trades 24 hours a day**
- **and so you can do it all without as much stress and energy**

Then I recommend you take a look at our special offer available only to Webinar Attendees. Because our normal price - if you go to our home page - \$997. If you get it within an hour of hitting this page: www.autofxfiringpin.com/webinar-special - then you can get it for a one time only fee of \$297. If you miss the hour window, there's a second chance special offer that you'll see for a little more – but still, truly a bargain.

And it even comes with a 6 Month Money Back Guarantee. Check out all the AutoTraders you can. No one that we are aware of offers a 6 month Guarantee. You have to ask yourself why.

**May the pips be with you!
Ken Herbert**

RISK WARNING

TRADING FOREIGN CURRENCIES IS A CHALLENGING AND POTENTIALLY PROFITABLE OPPORTUNITY FOR EDUCATED AND EXPERIENCED INVESTORS. HOWEVER, BEFORE DECIDING TO PARTICIPATE IN THE FOREX MARKET, YOU SHOULD CAREFULLY CONSIDER YOUR INVESTMENT OBJECTIVES, LEVEL OF EXPERIENCE AND RISK APPETITE. MOST IMPORTANTLY, DO NOT INVEST MONEY YOU CANNOT AFFORD TO LOSE.

THERE IS CONSIDERABLE EXPOSURE TO RISK IN ANY FOREIGN EXCHANGE TRANSACTION. ANY TRANSACTION INVOLVING CURRENCIES INVOLVES RISKS INCLUDING, BUT NOT LIMITED TO, THE POTENTIAL FOR CHANGING POLITICAL AND/OR ECONOMIC CONDITIONS THAT MAY SUBSTANTIALLY AFFECT THE PRICE OR LIQUIDITY OF A CURRENCY.

FOR EXAMPLE, TRADING THE VOLATILITY CREATED DURING THE RELEASE OF HIGH-AND MEDIUM-IMPACT ECONOMIC REPORTS PRESENTS EXCEPTIONAL OPPORTUNITIES FOR PROFITS. LIKEWISE, TRADING IN TIMES OF HIGH VOLATILITY ALSO INCREASES YOUR POTENTIAL RISK. TO ILLUSTRATE, THERE MAY BE TIMES WHEN YOU WILL EXPERIENCE SLIPPAGE IN THE FORM OF A GAP BETWEEN THE PREVIOUS BID AND THE CURRENT BID. THIS IS ESPECIALLY TRUE WHEN THE MARKET IS MOVING FAST DUE TO HIGH VOLATILITY. THUS, YOUR ORDER MAY BE FILLED AT AN AMOUNT FAR PAST YOUR REQUESTED ORDER RATE. IN AN EXTREMELY FAST-MOVING MARKET, YOU MAY ALSO EXPERIENCE A DELAY OF 10 TO 15 SECONDS BEFORE YOUR ORDER IS FILLED. IT IS POSSIBLE THAT YOU COULD LOSE MOST OR ALL OF THE FUNDS IN YOUR TRADING ACCOUNT. THEREFORE, DO NOT TRADE WITH MONEY YOU CANNOT AFFORD TO LOSE.

MOREOVER, THE LEVERAGED NATURE OF FX TRADING MEANS THAT ANY MARKET MOVEMENT WILL HAVE AN EQUALLY PROPORTIONAL EFFECT ON YOUR DEPOSITED FUNDS. THIS MAY WORK AGAINST YOU AS WELL AS FOR YOU. THE POSSIBILITY EXISTS THAT YOU COULD SUSTAIN A TOTAL LOSS OF INITIAL MARGIN FUNDS AND BE REQUIRED TO DEPOSIT ADDITIONAL FUNDS TO MAINTAIN YOUR POSITION. IF YOU FAIL TO MEET ANY MARGIN CALL WITHIN THE TIME PRESCRIBED, YOUR POSITION WILL BE LIQUIDATED AND YOU WILL BE RESPONSIBLE FOR ANY RESULTING LOSSES. INVESTORS MAY LOWER THEIR EXPOSURE TO RISK BY EMPLOYING RISK-REDUCING STRATEGIES SUCH AS 'STOP-LOSS' OR 'LIMIT' ORDERS.

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