



**URGENT REPORT**  
**TRADE FILTERS**



## The Best-Kept Secret of Forex

Many traders go through trading system after trading system, only to find that most of them “don’t work”. The truth of the matter is that there are many effective trading systems out there... the real problem is that most people can’t tell *when* to use these systems, and *when not* to use them.

**If you’re currently breaking even or experiencing an overall small loss (or small win), this report will take your trading to the next level.**

Amateur traders spend their time looking for new trading systems, while the professionals just stick to a “good enough” system, and spend their time learning when *not* to apply it. It’s a completely counter-intuitive approach, which is why it works so well.

Even a child knows how to open a trade when the moving averages cross, or when there’s a signal to open a trade. But it takes a mature mind to identify a situation when opening a trade would be unwise, even if there is a trade signal.

This is the real secret of successful Forex trading. Focus on reducing the number of losing trades, and the profits will follow.



## 3 Types of Trade Filters

There are 3 main types of Trade Filters that I apply to my daily trading:

### 1) Time Filters

Time Filters involve the avoidance of opening a trade during certain periods of time.

### 2) Spatial Filters

Spatial Filters involve the avoidance of opening a trade at certain areas on the trading chart.

### 3) Personal Filters

Personal Filters involve the avoidance of opening a trade when your ability to make objective decisions may be impaired.



## Time Filters

### Retracement Hours

Prices tend to trend (and retrace) at specific times of the day, resulting in a predictable (daily) market cycle.

This happens largely because the institutional traders (i.e. the big traders that move the markets) operate in a predictable manner: they tend to close their positions at the same time each day.

If you opened a trade (in the direction of the trend) as these big traders are exiting their trades, your stop loss might be prematurely triggered by a retracement. So it's best to avoid opening a trade at these times:

GMT	EST	Reason
6:00 – 7:00	2:00 – 3:00	Asian traders take profits as they prepare for the opening of the London session
11:00 – 12:00	7:00 – 8:00	European traders take profits as they go to lunch, and also to prepare for the opening of the U.S. session
15:00 – 16:00	11:00 – 12:00	European traders exit their positions as the London session closes

*Note:* These “retracement hours” are not 100% accurate all the time, but they do serve as a very reliable guide for times to avoid trading.



## **Your Sleeping Hours**

You should also avoid opening a trade just before you go to bed. I never leave a position running when I go to bed, without first ensuring that I move my stop loss to the breakeven price.

So for example if you're trading off the 1 hour chart, and go to bed at 11pm every night, avoid opening a trade at about 9-10pm, because prices may not move sufficiently in your favor for you to place a protective stop before you go to bed.

This may seem like "common sense" at first, but from my experience, most people don't consciously consider this aspect when opening a trade.

## Spatial Filters

### Daily & Weekly Support/Resistance

Before opening a trade on any of the intraday time frames (i.e. 4 hour chart and below), always check to see that prices are not near a daily or weekly support/resistance level.

For example, if you wish to open a long trade on the 1 hour chart, and you see this on the *daily* chart:



Can you see any nearby resistance levels on this daily chart?



Here, we can see that prices are approaching a resistance level (indicated by a previous price peak). If you opened a long trade (based on the 1 hour chart) right now, your long trade may not have much room to move to keep moving up before it hits this resistance level. This will significantly reduce your chances of securing a nice profit.

In such an instance, it would be best to avoid opening a trade, even if you have a very convincing trade signal to go long.

Conversely, when you're looking to open a short trade, always check the daily and weekly charts to make sure that there are no significant support levels near the current price.

This filter will help you avoid taking trades that have limited potential for large profits, because prices tend to reverse (or at least retrace) at daily and weekly support/resistance levels.

## Risk-Reward Ratio

Every trade that you take should have a minimum risk-reward ratio of 1:2. In other words, your profit target must be at least twice your stop loss (note: this may not apply to scalp trades).

For example, imagine that you have a signal to go long on the 1 hour chart below:



You decide that a realistic profit target would be the nearest resistance level (at the previous major peak), and that a stop loss should be placed at the nearest major support level (at the previous major valley).

Is the risk-reward ratio at least 1:2?



As you can see above, the intended stop loss allowance turns out to be larger than the potential profit. There's absolutely no way I would enter into a long trade in such a situation – and neither should you.

*Note:* Sometimes, you may be tempted to reduce your stop loss allowance and/or increase your profit target to meet the 1:2 risk-reward requirement. Don't force a trade like this. If you find yourself in a situation with a poor risk to reward ratio, just skip the trade. There are better opportunities coming up just around the corner.

## **Prevailing Trend**

If you're relatively new to trading, do try to trade only in the direction of the prevailing trend. Many traders are confused about how to identify a trend, but it's actually very easy.

Here's an example of a non-trending market:



With one look you can tell that prices are not moving up or down – they're just moving sideways. Don't trade in such “choppy” market conditions.

As a general rule of thumb:

An uptrend consists of higher peaks and higher valleys.

A downtrend consists of lower peaks and lower valleys.

If you don't see clear signs of either an uptrend or a downtrend, don't trade.



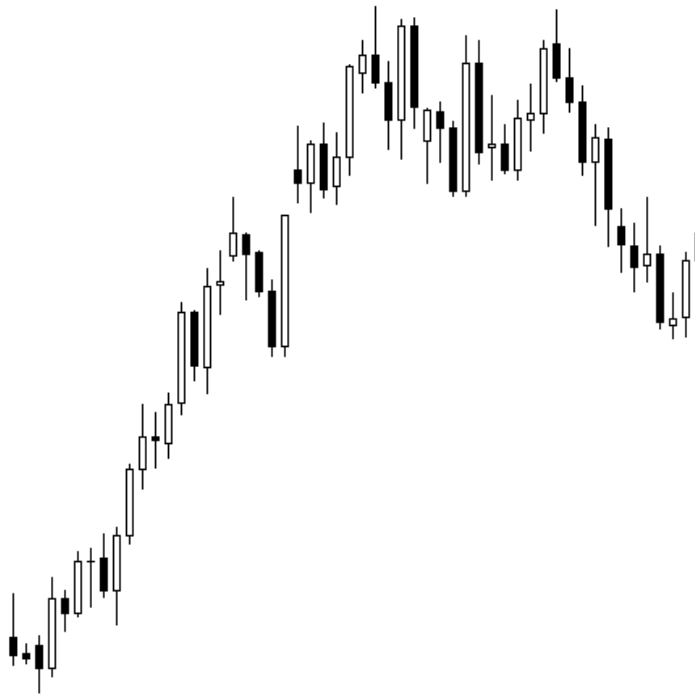
This is an example of a downtrend. Can you see how there are mostly lower peaks and lower valleys? In such down-trending market conditions, we will ignore all buy signals and only pay attention to sell signals (and vice versa for an up-trending market).

## Recent Price Action

Sometimes, I hold back a trade even though I have a convincing sell signal in a down-trending market (and similarly with a buy signal in an up-trending market).

I do this because I want to first see prices moving in my direction (in the recent price action) before I actually enter into a trade.

Here's what I mean:



Above, we see a price reversal and would like to now enter into a sell trade. The current trend (after the reversal) is “down”, but take a look at the recent price action:



The recent price action is bullish, and entering right now may not be a good idea. We want to first see some signs of prices coming down before we enter into a sell trade, like this:





In the above diagram, we see that prices have now begun to fall. With this bearish bias from the recent price action, it's now safe to enter into a sell trade:





## Personal Filters

### Emotional State

Don't trade you're feeling stressed, angry, worried or otherwise emotionally out of control. Among all the other filters we've discussed, this one is probably the toughest to apply.

We are all human, and would often be subjected to interruptions from our personal lives that disrupt our emotional state. If you've just had an argument with a loved one and are feeling hot-headed or annoyed for example, take some time away from your trading terminal to cool down.

If you're feeling emotional when you trade, you'll probably make bad decisions that you'll regret later. A mark of a good trader is always being aware of how you're feeling when you trade.

### Alertness

This is similar to the Emotional State filter, but has more to do with how mentally alert you are. If you've had a long day at work or have just had a few alcoholic drinks, please avoid trading until you've had sufficient rest to recover.

It's important that you're feeling comfortable and relaxed when trading.



## Conclusion

If you properly apply these Trade Filters, you'll see an immediate improvement to the percentage of your winning trades.

The “downside” (if I can call it one) is that you'll abandon many of the trades that you would otherwise have taken if not for these filters. Some of these missed trades will turn out to be profitable, and some will result in losses – don't stop applying these filters just because you miss a few trades that turned out to be profitable. Remember: in the long run, it's not just about how much you win, but also how much you avoid losing.

Your friend,

CHRISTOPHER LEE

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