

FOREX SAILING

“Long Lasting Trades For Maximum Profits

‘Working’ as Little as 5 Minutes a Day!”

eBook By Robert Borowski

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As the concepts taught in this eBook are about long-term interactions with the market that grow over time I'd like to dedicate this eBook to my beloved family that is my most significant long term "investment", which continuously rewards me richly with love, joy, and an abundance of blessings.

Thank you Mama for all your love and encouragement throughout my life. You have been my most significant influence in my life, and considering how I turned out I'd say you did a fantastic job of nurturing me. I love you very much too. By the way, you were absolutely right when you kept affirming to me that "books make you smart" – look, now I'm writing them! Thank you for being proud of me.

Violetta, thank you for your "unconditional" love, and for supporting my dreams. You are truly a "trophy wife" – beautiful of course, but more so because you have such a gorgeous soul that makes marriage to you bliss. I am honored and blessed indeed to "invest" my life's journey with you. I love you shmorgasborgally!

My son Christiam, you have just recently gotten here but I can't imagine my life without you. Your boundless enthusiasm and abundant smiles makes my heart rejoice everyday. You are so precious to me and are my most significant "long term investment". I love you beyond comprehension, and I look forward to exploring the world with you.

Bonnie & Garry, you are family to me. My life has been immeasurably enriched thanks to you. Your goal of "touching hearts and empowering others" has been accomplished in me. I love you, and may God bless you on your journey. Lomamy Aleaha

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INTRODUCTION

Why did I call this eBook “Forex Sailing”?

I think of the Forex market as the Sea; it is as large as the ocean (after all it is larger than any other financial market). In my previous eBook, “Forex Surfing” I used the analogy that the techniques contained within it are similar to surfing little waves in the ocean (I enjoy body boarding which is a kind of surfing). Surfers only play in the ocean for a short period of time, maybe a few hours at a time, much like the trading concepts taught in that eBook.

There are other people who like to spend time on the ocean in a sailboat (I’m not a sailor, but would gladly go if invited). Because of the nature of their watercraft they can spend significantly more time out in the Sea. They can stay out on the water for a whole day, even for multiple days. Whereas a surfboard is only suitable for a relatively short ride (few pips), someone in a boat can travel great distances (hundreds of pips).

Thus the concept of this eBook, “Forex Sailing”, is to show you techniques that are better suited for longer term trading. The objective is therefore to teach you how to chase profits of 100 pips or more (typically hundreds, but occasionally even a thousand pips).

Most people who trade larger moves in the Forex market typically trade fewer lots with larger stops paying more attention to the higher time frame charts exclusively. In this eBook I’ll definitely teach you some techniques that accomplish this, but I also have a different trading methodology that I will also be introduced to you here in this eBook.

Years ago when I started trading I had a limitation that turned out to be a very big blessing (Napoleon Hill, author of the classic “Think and Grow Rich”, was right when he stated that adversity can be an advantage). When I first got into Forex I didn’t have much money and so placing trades that required large stops (of 100, 200 or even 300 pips) was simply out of the question for me (a few bad trades could have wiped out my trading account). The cliché is that “necessity is the mother of invention”, and so I proceeded to devise strategies that would allow me to enter into those larger trades but with a significantly reduced stop requirement.

What my countless hours of watching charts, brainstorming, and “trial & error” trading resulted in was a series of trading strategies that not only

worked well, but actually worked exceptionally well – better in many cases than the standard trading techniques most Forex people teach. Because of the way these simple concepts work a trader using these methodologies can gain more profits from the same market move as another trader would catch using the standard technical analysis methods taught just about everywhere.

What is the “secret”? It is simply using smaller trades, properly timed, to enter into much larger trading opportunities. Imagine a guy on a surfboard hitching a ride pulled along by a sailboat.

Want an example of what I mean? Imagine that you’ve found some kind of trade opportunity that requires a 200 pip stop according to the standard methodologies of technical analysis trading. Following proper equity management of course let’s say you can trade one lot for that trade. Well what if you knew how to properly enter that same trade using a “surf” with a 20 pip stop, then couldn’t you trade 10 lots maintaining proper equity management? If you were to scalp your entry with a 10 pip stop then you could conceivably do as many as 20 lots. Let’s use the “surfing” example to contrast a comparison with the standard method.

Let’s say, hypothetically, that the market was to move in our favor just 300 pips. Obviously the person trading the standard method made a profit of \$3,000 representing a 1:1.5 risk-to-reward ratio. Our surfer however, starting with the same account size, and trading in the same market conditions succeeded in capturing \$30,000 representing a risk to reward ratio of 1:15. Sure, our surfer had to work a little harder for this trade, but let me ask you, would a significantly better return such as that not be worth a little extra effort? I sure hope you think so! Let’s not even discuss the returns someone using a scalp could have captured.

In this eBook I give you a mixture of methodologies - some straightforward “standard” kinds of techniques that are easy to implement, and some ingenious ways to tweak your trades to score even better returns. Some of the ideas presented in this eBook will take as little as five minutes of your time each day to work with, but some others may require more effort.

I explain a few indicators that you’ll find helpful, including one that I’ve invented myself (S.E.X. lines) so you won’t learn this anywhere else. You’ll learn some more advanced ways to use brokers, and this eBook also explores some other topics pertinent to your trading.

On a more personal note I declare that I do love trading Forex. I consider

myself a “joyful trader” (except on some days ;P) and I hope that my enthusiasm comes through in these eBooks that I share with you. I am thrilled that you bought these eBooks (thank you very much by the way) not because of the few coins I earned from you (which I consider to be a “gratuity” for the job “well done” in sharing all this stuff with you) but rather because you’ve given me a venue to share my wisdom and my passion for Forex trading. I have relatively few people in my personal life who have little more than a passing interest (fascination) with what I do, and my heart has yearned to be able to express this zeal to someone... anyone.

Unbeknownst to me at the very beginning of my days as a trader, Forex was to become a major blessing in my life. Forget about the financial rewards this path has brought (which is pleasant indeed), my “hobby” has prompted me to have many awesome life experiences, learn exciting new things, meet truly exceptional and inspiring people, find a fantastic “best friend”, and grow fat (ok, I’ll have to work on that one). The best blessing Forex has been able to provide me with is the privilege of being able to have my wife & I stay home, rather than going to some job we dislike, to watch as our beloved son plays, grows and sleeps (though since I do the trading I’ve convinced my wife that it’s only fair that she does the diapers). Throughout my life I’ve had one intense passion even greater than business; my spirituality. I can’t even begin to share the immense blessings that it has gifted me with, nor can I possibly express the depth of my gratitude. As I have learned from “A Course In Miracles”, I am entitled to miracles, and I am enriched by the peace, love & joy my spiritual path has bestowed. Having the time freedom to spend more leisurely hours reading, sitting on a beach, meditating, or just simply appreciating things is another gift made more accessible thanks to my “hobby”.

It is my sincerest wish for you that you too cultivate a passion for Forex. May it endow your life with the financial rewards that has originally attracted you to it, but more so may it touch your life in yet unforeseen ways. May your heart’s deepest desires be fulfilled in some way aided by your new “hobby”.

Let me share with you one more little secret before I end this “introduction”. There is a philosophical truth that you get back what you give, and that it is the teacher, not the student, that in fact learns the most through the process of teaching. Thus through the process of committing my thoughts and trading methodologies in writing I have learned a tremendous amount about trading. Writing forced me to clarify my own understandings in order to be able to concisely explain these concepts to you, and it also prompted me to refine some of my ideas to some powerful conclusions. This

whole experience has been a catalyst to make me a better trader, and with this wisdom I leave you with a lesson – find someone to whom you can attempt to teach Forex trading (regardless of how inexperienced you are there is someone even less knowledgeable who would love an introduction). It is an enjoyable and rewarding endeavor to share a skill such as Forex, and in the process of explaining things to your friend you'll find that you'll integrate the lessons better yourself. Richard Bach said in his book *Illusions*, "You teach best what you most need to learn".

I must say, before you commence reading, that this eBook came out a bit "holographic", meaning that it has a slightly abstract (non-linear) approach to the ideas presented. You'll find places where I assume you have already read other relevant topics from other places within this eBook (sometimes from later sections) and even from other eBooks. I hope you'll be able to follow my train of thoughts and understand everything.

So now let us mutually embark upon the journey of learning "Sailing" techniques. I hope you will find reading this eBook to be both informative and enjoyable. Most of all I hope you become proficient in trading with these methods. Good luck and good trading!

Robert

PREREQUISITES

This eBook is assumes that you have already read the following prerequisite eBooks:

Forex Surfing
Forex Scalping
Forex Classics (suggested)

Many of the methodologies taught in this eBook are extensions, or make use of, concepts discussed in those other eBooks. If you have not already read those eBooks then please stop now and read those before continuing with "Forex Sailing".

SOME BASICS

GETTING HELP

How do you get help when you need it? Wouldn't it be nice to have me, or another experienced trader, around to answer questions when you need some guidance? Well unfortunately (for you) I can't be around for you to pick my brain (my current rate for consultations is \$300/h, and lately I've been refusing most requests), but there is good news for you... there are trained professionals ready at your beck & call 24 hours a day just waiting around to answer Forex related questions for you. Best of all, it's FREE!

Yes it's true. All of the top Forex brokers (like FXCM, RefcoFX, Forex.com, CMS Forex, and there are others) provide a wonderful service called "Live Help". They are paid (and trained) to sit there waiting for you to initiate contact with them to discuss your questions.



As you can see from the above picture it's a kind of "online chat" – you type to "talk" with the help representative.

What are they there for? They are really there to answer all of your questions about how to use their trading software (and all client related questions), however they can also be helpful with questions regarding how to use charts,

and sometimes (explained below) even to discuss trading techniques.

Are you unsure about how to enter trades, apply or change stops, limits, or entry orders? Confused about ANYTHING about using your trading station software? If so then drop them your questions and they'll be delighted to answer them to help you understand. Remember, it is their job to be helpful. If you are confused about anything at all then don't hesitate to chat with them. It is important as a trader to be very familiar with the tools you work with so please feel free to ask them anything you need to understand.

Keep in mind that the person at the other end is a real live person, and so they can behave like real live people. By this I mean that sometimes you'll get someone who is extremely knowledgeable and will be happy to answer your question with a smile, however sometimes you might land upon someone who is in training (and will seem to be unsure of the answers provided), and sometimes you can land upon a person who is apparently having a bad day. If you find that you are somewhat displeased or uncertain of the information provided to you then simply initiate another contact a few hours later asking the same question(s). If you ever get different answers to a question then be sure to ask a minimum of three times to make sure you have the correct answer.

An important consideration to getting quality attention is to ask at the right time. There are times when they are busy, being flooded by questions, and times that they are less busy and more willing to spend more time with you. If you want to ask questions that are less related to their specific services, and especially if you want to discuss trading related topics then it is best to contact them when they are less busy. Obviously around huge Fundamental Announcements (especially the "Freaky First Fridays of the month") they'll be very short and to the point with you, and they certainly won't waste their time answering questions pertaining to trading techniques.

They'll usually be happy to help you to understand how to use the charts that they recommend on their site. If you need help with anything about using the charts then just feel free to ask them.

For the above-mentioned stuff just feel free to ask. That is what they are there for. Don't feel stupid about asking any of your questions. Remember, we all have our beginnings and have to ask "basic questions". Even once you are far more experienced don't be afraid to ask them questions... heck even to this day I still ask them the occasional question (it's better to *know* than to risk not knowing).

EQUITY MANAGEMENT

Yup, let's revisit this fun topic about "Equity Management". There are a few important points to make here for "Forex Sailing" in contrast to what I've already mentioned in "Forex Surfing".

This concept is the key to being an overall successful trader, and is what ultimately separates unsuccessful traders from the successful ones. If you know proper equity management principles, and, more importantly, **IMPLIMENT (!)** those principles, then you too can be one of the "elite" traders that are *****consistently***** profitable, making some excellent 'ch-ching'. I'll have some comments along these lines in the next pack I produce titled "10% to 30% Monthly ROI", but here I'll stick to what is necessary to know for the techniques presented here in this eBook, "Forex Sailing".

The strategies presented in this eBook are drastically different than what was presented in "Forex Surfing" (though there are many similarities in techniques). The difference is primarily in the scope or size of the trades sought after. In "Forex Surfing" most of the strategies required tiny stops of say 20 pips, however in "Forex Sailing" most of the strategies require significantly larger stops of 100 pips or more.

Don't let the fact that the "Sailing" techniques require larger stops scare you off because the target gains are proportionally larger as well for excellent risk to reward ratios. It is important to realize two things here: (1) Following proper equity management principles (which will be elaborated upon shortly) you should only trade the primary techniques taught in "Forex Sailing" if you have a minimum of \$5,000 in your trading margin account (preferably \$10,000 or more). (2) For those of you who have less than the required minimum then you can use a modified technique by combining the strategies learned in "Forex Surfing" to use as an entry technique into trades more appropriate for "Sailing". More about this will be discussed later in this eBook.

Here is a thought for you: Trading one regular lot for 20 pips is the same thing as trading 1 mini lot for 200 pips, 2 mini lots for 100 pips, 4 mini lots for 50 pips, etc. Bottom line is to just think of these types of larger trade risks as being the same thing just scaled differently.

Back to our discussion about proper equity management applicable to the techniques in this eBook.

The most common mistake made by rookie traders (of Forex, Stocks, Commodities, or whatever) is that they fail to understand the purpose of setting “Stops”. Many seem to think that a stop is placed to limit how bad a trade can go *based on what they can afford to loose*. The mentality is that if they can only afford to loose a specific amount of money then they place their stops there. This is complete “bovine excrement” and is a surefire way to loose your money as a trader. The market couldn’t care less about what you can afford to loose, and it certainly won’t stay away from your stop price just to be nice to you. **Your stops must be set at prices not based on what you can afford to loose, but rather based on strategic price levels, that indicate to you that your original assumptions about the direction the market will move in were wrong.** One thing I always strive to make sure you are aware of in all my materials is at what strategic price level to cut your losses and the logic behind the reasons for those price levels.

The other most common mistake made by rookies (I’m not really sure which is more common than the other, but they both happen) is that they DON’T use stops. YIKES!!! Just the thought of this makes scenes of horror movies and the theme song of the movie “Jaws” flash through my mind. I’ve heard people say stupid things like “don’t worry, I’m watching what’s going on and can manually exit a trade if things go sour”. Folks, trading without a stop is one of the dumbest things you can possibly do (other than deliberately trying to loose money by trading). What could happen if you loose your Internet or electrical power while in the middle of the trade and can’t sit there to baby-sit your computer watching to see what happens? Even worse, what if the market dives sharply & quickly due to some unforeseen news? Bottom line is a “stop loss” is there to protect yourself from unnecessary losses. Just do yourself a favor and ingrain the following thought into your mind. **NEVER EVER EVER TRADE WITHOUT A STOP.**

Now having a stop loss set is of course a very good idea, but you need to be aware that since September 2004 most Forex brokers now have a new policy that they’ll guarantee stops under all market conditions *except in circumstances of extreme market volatility* (the reason why is explained as a supplementary information at the end of this section). What this means is that the only time that your Forex broker might (and the key word here is “might” because they still often do) not honor your stop loss is if a Fundamental Announcement blows the current market price (a gap) way far beyond your set stop loss level. Knowing this you need to be aware of when FAs are being released so you can make the appropriate decision whether to engage/remain in the trade or not.

Now that you know that you should always trade with a stop in place you also have to know how much you are willing to loose on any one trade. Again, as stated above, where (at what price) you set your stop is not arbitrary but at a strategic price level that would prove that your original assumption of which direction the market will move in was wrong. What I am meaning here how much of your margin account balance may be risked for any single trade.

2% is the ideal risk level for most traders. Less than 2% (i.e. 1% or 0.5%) is even safer, and it is usually what professional traders stick to, but significantly less than 2% will usually yield to small gains for the tastes of most solo speculators.

What does 2% mean? Simply put, for ever \$100 you have in your trading account you should not risk more than \$2 on any trade. If you have \$1,000 then \$20 is your maximum risk, if you have \$10,000 then \$200, if you have \$100,000 then \$2,000, and so on. You can do the math to figure out what your maximum risk amount should be based on how much money you have in your trading account by simply dividing by 50.

Usually traders that have small trading account balances bend this rule to have their accounts grow larger faster, and also simply because they simply wouldn't be able to engage in some trades. Thus they take bigger risks, which is fine, but if you are one of them then realized that your account balance will swing wildly rather than experience a nice steady climb.

Only half of the equation of being a profitable trader is having cultivated the skill of consistently picking trades that out perform the inevitable losses. The other half is consistent application of equity management strategy.

Why limit yourself to 2%? Simply because this is an important part of being a successful trader. If you were to “bet the farm” (bet all or a huge percentage of your equity) on one trade then you could possibly walk away triumphantly, but chances are you would loose terribly and will abort your career as a Forex trader. Maximizing your losses at 2% means that you can weather out a series of potential losses (also known as “draw down”) to allow you to stay in the game long enough to catch some winners. Remember that the deeper you “go into the hole” (loose equity) the harder it'll be for you to just recover to the breakeven point. For example, if you were to loose 50% of your account then you'd have to shoot for a 100% gain just to recover. You've heard the cliché, “a dollar saved is a dollar earned”, well a part of the overall success of a trader is to protect your equity and not to squander it. **Protect your balance from significant losses – not loosing much is part of the overall strategy of building**

your trading balance.

“Well what about what you teach in your eBook *Forex Freedom*?” Obviously if you are following that plan you would be breaking the above stated 2% rule. That is true, but in some circumstances rules are meant to be broken. When your account is tiny, as it would be if you started with a meager mini account, you would simply have to break the 2% rule otherwise you couldn’t even trade. Think about it... 20 pips (stop & limit) is just about the smallest trade you could possibly engage in (don’t argue with me that you’d scalp trade for just 10 pips), so the above rule could only be followed if you had a minimum of \$1,000 in your trading account! (Explanation = 1 mini lot x 20 pips = ~\$20 which is 2% of \$1,000). “Forex Freedom” was designed to quickly accelerate account growth by taking greater risk in compensation of quickly turning an insignificant amount of money into something significant. Face it, if you were to lose \$300 due to highly leveraged trading then “so what”. I apologize to you if that was insulting to you because \$300 could be a seemingly significant amount of money to you... but come on, it really is chump change. What is important to notice about what was taught in that eBook is that once you reach \$10,000 you are then scaled close to an appropriate 2% risk limit, and after \$30,000 you should DEFINETELY stick to the 2% rule. It is also important to remember that in that eBook I refer to making trades with a 20 pip stop loss, so if you start trading engaging in trades with larger required stops then you MUST adjust how many lots (mini or regular) you may trade.

I should also state here that how you trade a mini account (in light of what I just said above) is also contingent of what your purpose is for trading it. If you are just trying to build up your account quickly then the above statements is fine for you. Some people, however, trade a mini account not because it is all they can afford to trade with, but rather because it is a training tool to practice proper trading techniques (including equity management). If this describes you then please do limit yourself to the proper rule of 2% (assuming you have enough in your account to be able to trade at 2%) while you develop your trading skills and disciplines.

Later in “10% to 30% Monthly ROI” (bundled with this Rapid Forex package) I further discuss the upside of sticking to the 2% rule, because by following it (along with the trading strategies you’ve learned from me so far) you can easily make 10%, 30% or even more rather easily! Please listen to it as soon as you finish reading this chapter. Think about it... if you can manage to catch a 20% net profit per month (YES! IT IS REALISTIC) and let’s say you have a meager \$30,000 in your account then you’ve made over \$6,000. The

fun really begins once you've built up to over \$100,000.

Ok, so we've touched on one of the reasons when it is "ok" to break the 2% rule – when you have too little money in your account to be able to trade at 2%, or if you have less than \$10,000 and are trying to build your account somewhat faster (following the "Forex Freedom" strategy). There are two other times when it'll be *somewhat* ok for you to break the 2% rule.

- (1) Many of the techniques contained within this eBook, *Forex Sailing*, are designed to have significantly larger stops. Some of the largest stops condoned in this eBook would be up to 200 pips. Following the 2% rule this would mean that to trade just ONE mini lot you would need a minimum balance of \$10,000. Here is your "permission" to bend the rules and let yourself go up to 5%... BUT PLEASE USE THIS WITH UTMOST CAUTION!!! Only trade at 5% when you think that the opportunity you are looking at is superb. Try to limit yourself to "allowing" yourself this luxury to just once a week MAXIMUM!!! Really "cherry pick" your trades.
- (2) Some of the techniques contained in this eBook are to enter into trades that should last for long periods of time. Different traders would define "a long time" differently. I define anything lasting over a week to be a long-term trade – some traders (position traders) would laugh at me considering a week to be "short term". Well, some of the trades you'll do will last for several weeks, possibly even months (obviously this would only happen if it is running profitably), and simple logic would dictate that the "set up" for such opportunities doesn't happen every day, every week, and not even every month. Because such trades happen rather infrequently many traders increase their percentage to better capitalize on those rarer opportunities. Some traders go as much as 10% (there are even other eBooks on the market that teach going for higher – just stupid), but generally speaking I like to go higher leveraged into those trades to a limit of 5%. Yes, the risk for the trade is higher, but generally speaking when engaged in such a trade you are shooting to score multiple times your risk, so it is worth it (risk to reward ratio of 1:2 or better). Remember, as stated above, this is a rather rare event that doesn't happen every week.

Let's wrap up this discussion about "Equity Management" for "Forex Sailing" by summing up the important points we've covered.

Your stops must be set at prices not based on what you can afford to

loose, but rather based on strategic levels, or price points, that indicate to you that your assumptions about the direction the market will move in were wrong.

THEN based on proper equity management principles you decide how much you can stand to loose on that one trade.

Then based on the required stop size and based on how much you can afford to loose (according to proper equity management principles) you decide how many lots you may commit to the trade.

Never EVER trade without a stop loss!

Protect your account from losses as the deeper down you go the harder it is to just come back to break even.

Even with a stop set still be cautious of significant Fundamental Announcements (i.e. “Freaky First Fridays” of each month).

Limit yourself to only risk a maximum amount of 2% of your equity on any single trade. Except for the following circumstances...

- o If you are following the rules set in “Forex Freedom”.
- o If your account is less than \$10,000 you may ONCE A WEEK (maximum, but preferably less often) risk up to 5% to go after larger trades requiring larger stops.
- o Once in a long while when there is a great set up for a potential long-term trade you may trade up to 5%.

ABOUT P/L TRADING RATIOS

There are two primary methods to profiting by trading in the Forex markets (or any other market for that matter). Method one is when the target profits are equal to the target loss ($P=L$). Method two is when the target profits are greater than the target loss ($P>L$). There is actually a third, but this is insane to do; target profits are less than the target loss ($P<L$). Some traders prefer one of these approaches over the other but either is good. It is best to use both approaches for various trading styles.

The “Forex Roulette” method in this eBook is an example of “ $P=L$ ” (there are other technique variations that I teach here & in my other eBooks that are also

“P=L”). The trick to having trades with equal profit targets and loss targets is to have more than 50% of your trade picks be correct. The challenge is of course to be skillful at your technical analysis to improve your percentage of wins.

The second method of trading is to let your profits run and far exceed your potential losses (P>L). With this approach you can be wrong (yes WRONG) most of the time and still be profitable! For example, if you were to have trades that are three times more profitable than your set losses you could be wrong 70% and still be profitable! (i.e. losses = 100 units, profits = 300 units ... 7 losses x 100 = 700 units, 3 wins x 300 = 900 units, net 200 profit).

Usually trades that follow the “P=L” model employ a fixed target limit, whereas usually trades that follow the “P>L” model achieve that result by using a trailing stop letting the profits run their course.

Some traders use a clever combination of both of these approaches to gain the benefits of each method. A simple way to do this is to set up two trades (each trade is for half of your permitted trade amount based on equity management principles. Both trades together equal your full risk permitted). Each of the two trades represent half of your whole trade (obviously each using half of the amount of lots you could allocate to the whole trade). Half of your trade then is set to have a fixed limit equal to your stop. The other half of your trade is set without a limit (but of course you have a stop!) and you simply employ a trailing stop to see how far you can let your profits run.

For each trading technique presented in this eBook (and my other ones) it should be obvious which of the above two methods is implied to be used. Though I usually don't specify, for most trading techniques you could adapt the combination of using both “P=L” & “P>L” and this should work advantageously for you for most styles of trading.

One more “method” exists, but this one is insanely stupid. Though it is crazy to implement it is unfortunately used by many newbie traders when they begin trading. The cliché rule of thumb for traders is to “cut your losses short and let your profits run”, however many people new to trading often do the opposite of taking their profits quickly, but letting their losses run far longer than they should. There are many reasons why they do this (mostly psychological), which I won't elaborate upon here, but it is a sure sign of an amateur trader not properly educated. This method of having target profits be less than target losses (P<L) is a surefire way to lose money fast and to have your career as a trader be ended very quickly. Bottom line is to **always set**

your stops at appropriate levels and to only engage into trades that are expected to yield a profit that is equal to or greater than your potential loss.

REASON FOR BROKERS' POLICY CHANGE

The following is just interesting reading for you. Above I promised you that I'd elaborate on this subject here.

Why did the brokers change their policy regarding honoring stops & entry orders? Well, here is the short version of the story. Some really smart guy (whose name we won't mention here) came up with a truly genius trading strategy that proved to be an Amazing System for capturing humongous profits off of Fundamental Announcement moves. The technique was a killer method that worked for him like something other traders could only dream. This wise guy began wondering why nobody else seemed to have discovered the principle behind this marvelous trading method. This brilliant person turned into a bonehead when he decided to let his altruistic personality that cares about other people convince him to write this technique down to share with other people so that they too can experience fantastic explosions in their profits. Rather than keeping this amazing system to himself so that he could use it for years and years he wrote a book titled "Explosive Profits" (the original edition) and unleashed this dynamite out into the world. The people who got their hands on this document quickly proclaimed him to be a saint, blessing him, even prayed for him when he got injured. They made huge amounts of money very quickly and they were grateful to this guy. More and more people learned of this amazing Forex system, and more and more people were making money, but the Forex brokers started getting nervous because apparently they were losing money because of this new technique people were using. In September of 2004 there were a couple of Fundamental Announcements that moved the markets HUNDREDS of pips in the matter of just a few minutes (actually seconds), which of course was good for the traders using the "Explosive Profits" technique (we were happy), but the Forex brokers got very scared and even lost their tempers... so they revised their policies regarding how they honor stop, entry and limit orders around the times of big FAs.

OVERNIGHT INTEREST

In my previous eBooks I typically omitted the topic of overnight interest because most of the trades I taught you were “day trades” meaning that you entered and exited the trade all in the same day. Because “Sailing” involves trades that last for multiple days (hopefully weeks or even months) then you should now be made aware of what overnight interest is and how it affects you.

When you trade Forex what you are actually doing is you are entering into a contract to exchange currency with someone else in the world. Essentially you are agreeing to deliver (for each lot traded) \$122,000 USD cash in exchange for €100,000 EUR (assuming an exchange rate of 1.2200). The reason why an armored truck doesn’t drive up to your door to deliver all this money, and no one is mad at you for not having delivered them their money is because your broker automatically “rolls over” your trade into the next day as they assume that you don’t actually intend to deliver nor take delivery of actual currency (if you really want to do this then contact your broker to not automatically roll over, but I doubt that you’d want to do this).

Ok, so why do you have to pay “overnight interest”? It is because nobody expects you to drop-ship the money *today* (you have two days to settle the trade), thus while the money is still in your hands they’ll be charging you interest for holding onto it, but you also get to charge them interest for holding onto your money. If worldwide interest rates were all the same then we wouldn’t need to worry about “overnight interest”, because what you would owe them would be cancelled by what they owe you. In the real world, however, there are different interest rates imposed by the various world governments, and so what you have to observe is the net difference in interest.

Note that on Wednesday you get charged (or credited) three times the regular overnight interest because the settlement period (if you were to actually deliver the cash) would happen over the weekend, so you get a “3-day rollover” from your broker, hence why the Wednesday overnight interest is three times as large as normal.

So how do you calculate the interest? The formula is simple:

(1 day interbank deposit rate for the base currency) minus (1 day interbank deposit rate for the counter currency) = equals interest rate differential
--

then divide the interest rate differential by 365 and that gives you the daily differential

then multiply the daily differential by the total open position in currency pair, then divide by 100

If I just lost you then don't worry about this stuff, your broker will calculate all this automatically for you anyhow.

Brokers usually post the interbank rates somewhere on their websites so you can go to look it up if you want to. The reason why I'm not providing you with the interest rates here is because they change from time to time.

Ok, say you've made a trade on EUR/USD. Today the interbank deposit interest rate for EUR is 2.00% and USD is 3.50%. Let's say you traded one lot (100k) and were long EUR, short USD, then this is how it would look:

$$\begin{aligned} \text{Long EUR (2.00)} - \text{Short USD (3.50)} &= -1.50 \\ -1.50 / 365 &= -0.004110 \\ (-0.004110 \times 100,000) / 100 &= 4.11 \end{aligned}$$

Therefore 4.11 EUR would be debited from your account. If you were to trade in the opposite direction then 4.11 EUR would be credited to your account for the overnight interest. Assuming an exchange rate of 1.2200 then 4.11 EUR equals 5.01 USD.

If you are trading in a mini account, or with some brokers even a regular account, then regardless of whether you should be receiving overnight interest or be paying a small amount they will ignore what you should either receive or pay out and **simply charge you a flat 1 pip overnight interest**. This is a rip-off! Some brokers will charge/credit you appropriately, but some brokers will nail you with the 1 pip charge regardless.

For the above reason you should carefully select the broker you'll engage in "Sailing" trades with (I later suggest a good broker for this). **This can make a huge difference for you!** Let's say that you entered into a trade on EUR/USD that lasted 60 days (counting weekends). If your broker charges you 1 pip per day then you'll pay them \$600 per lot traded! If you were long EUR/USD with another broker then you would earn \$300.60 in interest (meaning you would do \$900.60 better on that trade than with the other broker), or you would only pay \$300.60 interest if you traded in the opposite direction (saving you \$299.40, roughly half, from what that other broker would have

charged). Either way it is far preferable to trade with a broker that charges you overnight interest like this.

NEW BROKER INSTRUCTIONS

In my previous eBooks I recommend that you use either FXCM or RefcoFX as your Forex trading broker. As I've stated in "Forex Scalping" that recommendation isn't because I consider them to be the best brokers overall, but simply because they are the best brokers, in my opinion, to use for a new trader.

Other reasons aside, the primary reason that I suggested you use them is because their trading platform is so easy to use. A newbie trader with limited understanding should relatively easily figure out how to place market orders, entry orders, stops and limits. Other brokers' trading platforms are more complicated and far less intuitive for implementation of trades. When you are learning about Forex trading it is better to stay with the simpler to use brokers (FXCM & RefcoFX) as you don't need to clutter your mind with the mental gymnastics needed with the more complicated brokers. But by the time you are reading this eBook, "Forex Sailing", I would now consider you to be somewhat more advanced in your understandings and ready to learn about the more complex brokers' trading platforms.

There are two additional reasons why it is important to learn how to work with these more complicated trading stations.

1. Some other brokers offer you a more competitive pip spread on currency pairs. If you are utilizing tiny-stop trades that are better suited for currency pairs with smaller spreads then you'll have more currency pairs available to you to trade with. For example, one of my favorite pairs to trade is GBP/USD, however I get a 3 pip spread with other brokers whereas FXCM currently gives a 5 pip spread on this pair. Obviously I wouldn't trade that pair with FXCM if I can get a more competitive spread.
2. In the eBook "Forex Scalping" I promised to share the secret of which broker (at the time of this writing) still guarantees stop orders under all volatile circumstances (i.e. FA), which means that you can sleep easy at night not worrying that something bad could happen to blow out your account. I will discuss this topic and reveal the broker a little later in this section.

Before you continue reading this section please be aware that at first reading this can seem quite confusing. If you are new to Forex and are already feeling a little overwhelmed with all that you are learning then it may be best to skip reading this section for now.

If it takes you a while to grasp these concepts then don't worry about it. It took me a long time to wrap my brain around these ideas when I was learning it (and sometimes I still have to pause to think about it). Most authors who have explained these steps seem to explain it clear as mud and you have to really think about it. I've thought about how to explain this stuff to you in the easiest way I think I can so that you'll have a somewhat easier time learning this.

I hope the above paragraphs didn't scare you off, as it is not my intent to do so. After a little while all this will become easy for you.

In this section I'll explain to you how to place the following order types: Market, Stop, Limit, Trailing Stop, OCO, If-Then, If-Then OCO, and explain GTC & GFD. That stuff is relatively easy to understand but more importantly I'll explain how to understand "Stop vs. Limit" orders (it's not what you think).

I am showing snapshots from the broker "[ACM](#)", but the general ideas shown here will work the same with most other brokers.

MARKET ORDER



Let's start off here with placing a "Market Order" since it is the simplest thing to show you, and this is a no-brainer for you to grasp. The easiest way to place such an order *at the current market price* is to click either the red area to sell a lot to "go short" (you can change the quantity of lots in the Qty field) or to click the blue area to buy a lot to "go long". This is called "One Click

Dealing”, and as soon as you click you’ll instantly have a trade activated. As you can see from the above picture the price is displayed in the colored areas, and the price you click on is the price you get (FYI – also notice that here I get a 2 pip spread on EUR/USD).

That is pretty much it. Once you do this you have an active trade **BUT realize that you DON’T have a stop set!**

CONCEPT OF STOPS & LIMITS

Ok, here comes the fun part. Before I explain the other order types (i.e. OCO, If-Then, etc...) you need to grasp the concepts of “Stops & Limits”. Whenever you make a trade you will always be doing these three things.

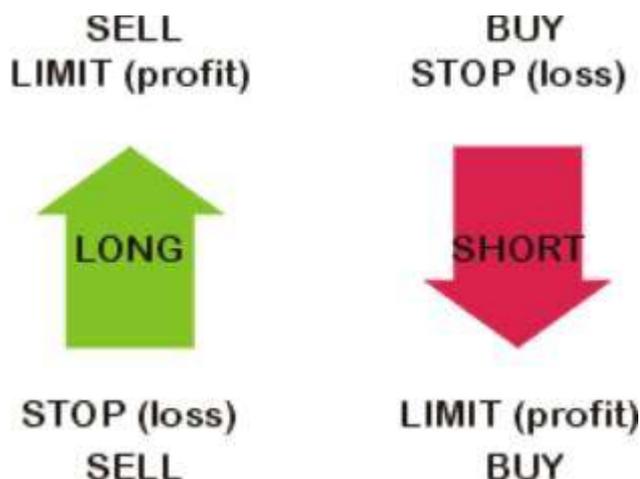
Let’s pretend you’ve gone “long” on a trade (you bought going up) then sooner or later you must exit that trade, and to exit a position that you’ve bought then obviously you need to sell your position. When you “sell” to exit your trade then you’ll either sell it for a profit or for a loss.

As by now you should already understand, if you were to set an order to sell at a higher price for profit then you would accomplish this by setting a “limit order”. If you were to set an order to sell at a lower price for a loss then you would accomplish this by setting a “stop order”.

All this should be obvious to you as well for the opposite direction if you were to go “short” on a trade (you sold going down). Sooner or later you must exit that trade, and to exit a position that you’ve sold (shorted) then obviously you need to buy your position. When you “buy” to exit your trade then you’ll either buy it for a profit or for a loss.

If you were to set an order to buy at a lower price for profit then you would accomplish this by setting a “limit order”. If you were to set an order to buy at a higher price for a loss then you would accomplish this by setting a “stop order”.

Here is a diagram to show you this visually.



So if you are already in a trade, either long or short (for example by doing a market order) then you will need to place at the very least a stop order (to protect you from unlimited loss) and possibly a limit order (to automatically exit at a predetermined profit). You can accomplish either individually or better yet by doing an “OCO” order (explained later).

It is important to understand that you CAN NOT place a Sell-Stop order or a Buy-Limit order above the current market price, nor can you place a Sell-Limit order or a Buy-Stop order below the current market price. If you attempt to do so then your broker will return an error and the order won't be entered. The correct order needs to be placed on the correct side. If you understand what I just said then congratulations for you (you're a Mensa candidate), but if you are confused then just reread the above a few times until it sinks in.

ENTRY ORDERS - STOPS vs. LIMITS

In the above example we assumed you already had an active trade, and we just looked at how to exit that trade with either a stop or limit order. You might have entered that trade, for example, by simply doing a market order. But what if you want to do an “Entry Order” (the broker will automatically enter you into a trade once the market hits your predetermined price)? If you've played with FXCM's trading platform then you know that they let you do so very easily, however with other brokers you need to do a little mental gymnastics.

I've decided (after thinking about whether to do it or not) to not explain to you the reasoning behind why what I'm about to tell you is the way it is, as I think that it might only confuse you (at first). All that is important to understand is

the HOW (not the why). Once you grasp the “how” later you’ll figure out the “why”.

There are four (4) variations for placing an “Entry” order that you need to know, and here they are:

1. If you want to enter to Buy (go long) once the market hits a predetermined price that is ABOVE the current market price then you do so with a “Buy-Stop” order. (used if you believe that if the market moves up to that price that it’ll continue in that direction – example used: “Surfing” a wave top; pattern breakout)
2. If you want to enter to Buy (go long) once the market hits a predetermined price that is BELOW the current market price then you do so with a “Buy-Limit” order. (used if you believe that if the market moves down to that price that it’ll bounce back up – example uses: within-range trading; buying at the 62% Fibonacci retracement)
3. If you want to enter to Sell (go short) once the market hits a predetermined price that is BELOW the current market price then you do so with a “Sell-Stop” order. (used if you believe that if the market moves down to that price that it’ll continue in that direction – example used: “Surfing” a wave bottom; pattern breakout)
4. If you want to enter to Sell (go short) once the market hits a predetermined price that is ABOVE the current market price then you do so with a “Sell-Limit” order. (used if you believe that if the market moves up to that price that it’ll bounce back down – example uses: within-range trading; buying at the 62% Fibonacci retracement)

Here is a diagram to help you understand this visually:

Entry ABOVE Market



Entry BELOW Market

The above can be used to place either a “Stop Order” or a “Limit Order”, but realize that once it is activated that you don’t have either a Stop set for loss, or a Limit set for profit (which you should have at least a stop set). What you have to realize is that though the words “Stop” and “Limit” are used to define those order types for entry you MUST understand that you shouldn’t confuse them with being a “Stop” for loss or a “Limit” for profit. The fact that those words are used to define two different concepts is what leads many people to confusion, so be sure to get these ideas straight in your mind.

Here is what an order box looks like for this type of order:

Order Form

Order management

Create order

Currency Pair: EURUSD

Order B/S: Buy

Order Type: Stop

Stop Price: >= 1.2224

Amount: 100'000

Expiration Type: GTC

Place Cancel

IF-DONE ORDER

The “If-DONE” order is the simplest of the “conditional” orders. “Conditional” means that **IF** the first order is entered (i.e. your Entry order) **DONE** then activate the following secondary order. The most common application is IF your Entry order is triggered (say the market reaches the peak of a Surfable wave) THEN place a second order to act as a Stop for loss (incase the market reverses back down to the bottom of your wave and keeps going in a losing direction). Alternatively, the second conditional order could be made to act as a Limit for profit, but as I’ve adamantly told you in my previous eBooks that you should always have a Stop set for loss, so you would typically use an “IF-DONE” only for that purpose.

The “IF” part is your Entry order, so you would use the rules described in the above section on how to place your entry order. The “DONE” part is where you set your Stop or Limit order (for a Stop-Loss or Limit-Profit) as described in an earlier section.

Here is what an order box looks like for this type of order:

OCO – ONE CANCELS the OTHER

Earlier I explained the variations of exiting a trade once you are already in a trade. The two ways to exit is to Stop for loss or Limit for profit. If you have a trade already engaged (say you manually entered at current market price) and if you want to have both a Stop for loss and a Limit for profit placed on that trade then you would use an “OCO”.

OCO places the two entry orders (that would cancel the existing trade, either for profit or for loss) and once one of those two orders gets triggered then the other one just disappears (since it is no longer needed). This is why this form of order is called “OCO” because one of the orders will cancel the other (One Cancels the Other).

If, for example (this is one of the four variations explained earlier), you are active in a trade going long (up) then you will set the OCO to have two orders; one as a Sell-Limit (above current market price – this is your Limit for profit), and the other as a Sell-Stop (below current market price – this is your Stop for loss).

Here is what an order box looks like for this type of order:

The screenshot shows the 'Order Form' window with the following details:

- Order management** (tab)
- Create order** section:

 - Currency Pair: EURUSD
 - Order Subtype: OCO
 - Expiration Type: GTC

- One Cancels the Other Section** (radio button selected):

 - [Asset: EURUSD Buy/Sell : SELL Basis: LIMIT Price: 1.2235 Amount: 100'000]
 - [Asset: EURUSD Buy/Sell : SELL Basis: STOP Price: 1.2200 Amount: 100'000]

- Buttons: Place, Cancel

IF-DONE OCO

This order type combines the “IF-DONE” and the “OCO” into one. Basically this is used if you want to place an Entry order (accomplished in the “IF” part) that has both a Stop set for loss and a Limit set for profit (accomplished in the “DONE – OCO” part). Just apply all the rules I’ve explained earlier for each part.

Here is what an order box looks like for this type of order:

The screenshot shows the 'Order Form' window with the following details:

- Order management** (tab)
- Create order** section:

 - Currency Pair: EURUSD
 - Order Subtype: IF-DONE / OCO
 - Expiration Type: GTC

- IF Section** (radio button selected):

 - [Asset: EURUSD Buy/Sell : BUY Basis: STOP Price: 1.2300 Amount: 100'000]

- DONE Section** (radio button selected):

 - One Cancels the Other Section** (radio button selected):

 - [Asset: EURUSD Buy/Sell : SELL Basis: LIMIT Price: 1.2400 Amount: 100'000]
 - [Asset: EURUSD Buy/Sell : SELL Basis: STOP Price: 1.2200 Amount: 100'000]

- Buttons: Place, Cancel

TRAILING STOP

One thing that I love about FXCM is that they have (relatively recently) added the ability to trail stops automatically against the trade you have entered. This is a wonderful feature that is very useful for a few types of strategies. Unfortunately not all brokers have automatic trailing stops, and those that do have different ways that they are implemented.

ACM, the broker whose platform I am showing you here does have an automatic trailing stop, except that it is a separate order, thus you can't tie it in with an Entry order (IF DONE OCO). Oh well, here is what it is and how it works (with them).

You simply set a Stop order (as you've learned earlier) except here you have an additional option to set how many pips behind the market it is to trail. If for example you were to set a trailing stop behind your long trade (going up) for say 30 pips, then as the market moves up your stop will automatically readjust itself to remain that far away, so if the market eventually reverses you would get stopped out about 30 pips away from where the market peaked.

Here is what an order box looks like for this type of order:



The image shows a screenshot of a software window titled "Order Form" with a sub-header "Order management". The window contains the following fields and controls:

- Create order:** A sub-section header.
- Currency Pair:** A dropdown menu set to "EURUSD".
- Order B/S:** A dropdown menu set to "Sell".
- Order Type:** A dropdown menu set to "Trailing Stop".
- Trailing Price <=:** A numeric input field set to "1.2195".
- Trailing Points:** A numeric input field set to "30.0".
- Amount:** A numeric input field set to "100'000".
- Expiration Type:** A dropdown menu set to "GTC".
- Buttons:** "Place" and "Cancel" buttons at the bottom.

GTC vs. GFD

You'll notice that the order windows have an option between "GTC" and "GFD".

GTC means "Good Till Closed". That means that your order will remain in effect indefinitely until it is either completed or you manually cancel it. If you placed an order that didn't get triggered today the order will remain pending for days, weeks, months or however long it takes until the market moves to trigger it, or if you simply close it. You should certainly have your stop loss orders set with this option because the market might not reverse today to stop you out, but it could tomorrow, and you want the protection of your stop loss orders indefinitely. Furthermore, certain types of trades might require you place an Entry order that might not get fulfilled today, but you want it to be fulfilled whenever the market eventually does what you expect it to. The GTC is the default option when you are placing orders, and for most purposes you can simply leave it as it is.

GFD means "Good For Day". That means that your order will remain in effect today until it is either completed, you manually exit it, or the day ends. If the market conditions don't trigger the order today then it will automatically abort and the end of the day. You might want to use this for short-term day-trade Entry orders or for conditions that only apply for today (i.e. for the "Netless Candle" technique you'll learn later in this eBook).

CHANGING ORDERS

If you have pending orders (of any type) then if you change your mind about the order you can either cancel it or modify it.

To cancel a pending order simply right-click on it and select "Cancel Order".

To modify a pending order simply right-click on it and select "Modify Order". You will now be able to change the variables of the order such as the strike price.

CAUTION

If you've been trading with FXCM or RefcoFX for a while then you might have become accustomed to the fact that your stops and limits are tied to your trade, and that by manually exiting the trade those other things are automatically canceled as well. **You need to be cautious however when using**

these other types of brokers because your stop loss order might NOT be tied to your active trade, and so you need to check to make sure that it too has been cancelled (if needed then cancel it manually). The danger is that if you were to exit a trade but not cancel your stop then if you were to leave your computer for the rest of the day the market might reverse, hit your “stop”, and activate it into a trade that DOESN'T have a stop loss to it! You could potentially come back the next day to find that you've lost a huge amount of money due to a tiny stupid mistake such as this.

The bottom line is to always be sure that any corresponding Stops and Limits are placed / canceled when you are trading, and get into the habit of checking everything before you close your computer for the day.

REASON FOR MULTIPLE BROKERS

Some people pick a broker that they trade with and they end up marrying that broker; they only deal with that one broker. Unlike cheating on your wife (or husband) you SHOULD have a “mistress” broker. Each broker has their own unique strengths and weaknesses, and by having accounts with two or three different brokers (let's not go crazy here having too many accounts) then you can take advantage of each broker's specific benefits. One may still be your primary broker, but use the other for special purposes.

For example, one broker may have a better pip spread on a particular currency pair than another broker. If one broker offers 5 pips on some currency pair whereas another broker offers 3 pips for the same pair then which broker would you use to trade that pair? The answer is obviously the lower spread option.

There are many factors to compare brokers against, but I won't discuss all of them here. From your research and interaction with various brokers you'll figure out which is best to use for specific purposes. There are just two main considerations that I want to touch upon in this section. One of those points has already been mention, the pip spreads, but the second is the more important tip that I want to share with you.

The information I'm about to share is valid at the time of this writing, so make sure to confirm this info yourself before you act on it.

Most brokers currently do not absolutely guarantee their stop orders. Looking at what they say on their websites is misleading; you need to read the “fine

print”, which states that they will honor stops EXCEPT during times of extreme volatility. This means that if a particularly huge fundamental announcement is released or should there be some bizarre world news (like a serious terrorist event) then they might not honor your stop loss order if the market gaps beyond that price.

If you are doing large trades (i.e. trading on large scales like daily charts with huge stops of say 200 pips) then a market gap caused by “extreme volatility” might not affect you significantly. However if you are making highly leveraged trades (as you would be doing using scalping or surfing techniques) then even a small 50 pip gap beyond your stop can be a significant loss.

Rarely will unexpected world news adversely affect your trading (sometimes you might get lucky by being on the right side of the trade to take advantage of it), but you might from time to time experience its effects (I lost money due to the London bombings, not because of a missed stop, but due to unexpected market behavior).

World news is something you can’t anticipate, so just forget about it. What you can control is whether you are actively trading through significant Fundamental Announcements. If you are position trading, as is taught in this eBook, then you will inevitably sail through some stormy FAs. Most FAs will not capsize your trade (it may rock the boat), but there are occasional big FAs that can be dangerous.

Here is an important rule: NEVER LEAVE TRADES OPEN THROUGH THE “NON-FARM PAYROLL” ANNOUNCEMENT ON THE FIRST FRIDAY OF EACH MONTH (08:30 EST)

There is one broker that I’m aware of that does (currently @ time of writing) honor your stop orders under ALL market conditions, including times of “extreme volatility”. That broker is [ACM \(click on the link\)](#).

If you are “Sailing”, using the techniques of this eBook, then you’ll often have trades in the market for long periods of times (days, weeks, sometimes even months). It is reassuring to know that while your trades will sail through the stormy seas of Fundamental Announcements, weekends, and unforeseen uncertainties that your trade will remain relatively safe. This is not to say that you shouldn’t use the other brokers for long-term trades, but in some circumstances ACM will be the preferred broker.

VOLATILE ASSET PROTECTION

Here is a little tip for you to use if you are trading with a broker that DOESN'T guarantee stops under all market conditions and you INSIST on trading highly leveraged through potentially volatile conditions, such as some bigger Fundamental Announcements (but NEVER!!! through the Non-Farm Payroll). If you don't normally engage in such trades then just disregard what I'm saying here.

Most Forex brokers claim that (unlike Commodity brokers) your risk is limited only to the funds in your account. This means that if your account were to be blown away by some unfortunate event that your risk is only limited to the funds that you have deposited with them. They are actually lying to you because in the fine print of their contracts it says that they can chase you down, at their discretion, for any negative balances, however that being said they normally won't do this to you (unless you seriously aggravate them by doing something unusual).

Ok, so you can use this "limited risk" to your advantage. Let's say, for a simple example, that you can have \$10,000 on deposit in your Forex account. We know that the maximum risk is 2% on any given trade, which translates to a maximum of \$200 you can risk on any given trade. On one end of the spectrum (least leveraged) this means that you can trade one mini lot with a 200 pip stop, and at the other end of the spectrum (most leveraged) you can trade two full lots with a 10 pip stop (if you were scalping).

Looking at the most highly leveraged side, you would need a minimum of \$1,000 on reserve with some brokers (200:1 leverage is \$500 per lot), or \$2,000 on reserve with some other brokers (100:1 leverage is \$1,000 per lot). Let's assume for our discussion that you are using a broker that allows you 200:1 leverage.

So if you were to be engaging into the highest leveraged types of trades (scalping with 10 pip stops trading 2 regular lots) then all you would need in your account to be able to trade is \$1,000 to cover your margin requirement and a few extra bucks to give your trades some room to breath, say an extra \$1,000 (which would allow you 5 consecutive losses). Thus all you really need is about \$2,000 in your account to trade in that manner.

What do you do with the other \$8,000? Simply keep it in a bank account (open a dedicated account, don't mingle the funds in your personal spending account). Now the important thing to keep in mind is that mentally you

imagine that you have a full \$10,000 in your trading account to work with. The fact that those funds are NOT in your trading account means that they are protected from potential loss (so don't go spending that money, treat it as if it were in fact on deposit with your Forex broker).

Thus when trading like this it appears that you are risking 10% of your account, but in reality you are still only risking 2% maximum. Should you lose most of the money in your trading account then simply wire in another \$1,000 to let you continue trading (but if you do this several times then think about what you are doing wrong). Not only will doing this save you from unfortunate events from wiping out your balance it'll also prevent you from a day of stupidity (irrational trading) from seriously deleting a significant portion of your account. Conversely, when you score profits then withdraw an appropriate amount from your broker and deposit the funds into your bank account.

Just remember that when calculating how much you may risk on any trade (maximum of 2%) to factor in the sum total of your brokerage and your bank accounts.

CHARTS

In earlier eBooks I've discussed the importance of having good charts, and a bit on how to work with them. I won't duplicate what I wrote about before, but in this section I will cover two relevant topics; how to use charts specifically for "Sailing" purposes, and a special adaptation of how to use charts if you use [ACM](#) as your broker.

CHARTS FOR SAILING

Since I've discussed charts so much in my previous eBooks I don't think that I need to say much here about them, so I'll get straight to the point. With the "Sailing" techniques taught in this eBook there are two primary chart views that you'll be mostly dealing with, and several supplementary views.

The two primary chart views you'll be working with are the Hourly charts and the Daily charts. The bulk of your trading will be directly based on your analysis from these.

Two of your supplementary charts will be the Weekly and the Monthly

charts. Though you technically could do “Sailing” trades directly off of these chart views most often you would find that the required stops would be huge (too large from most practical purpose – though if conditions are right, rarely, then you might do so) and the duration of those trades would often be a very very long time (though if it is profitable then who cares, right?). The reason why you will be using these charts is to larger market trends and armed with that knowledge you’ll be able to apply it to smaller applications on your Hourly or Daily charts. These are your “big picture” charts.

Another two of your supplementary charts will be the 8 Hour and 4 Hour charts (and sometimes the 2 Hour charts). Because the 24 hour day is segmented into blocks of time (“consolidation time”, Asian/European overlap time, and European/N.American overlap time) you’ll find that these charts are valuable to see a certain perspective of how these “times” behave collectively. Though the chart’s segment of time doesn’t directly correlate with those above mentioned time segments it does still provide a rough fit. For example, the first 8 Hour candle of the day includes 2 hours of just the Asian market (generally considered minor consolidation time), then the Asian/European overlap time, and then 2 hours of just the European market (again considered minor consolidation time). Thus I think of the first 8 Hour candle as the Asian/European candle. The second 8 Hour candle starts off with the start of the European/N.American overlap time, which lasts for half the duration (4 hours – hence why the 4 Hour candles are also nice to use), then the second half of that candle is when just the N.American market is open (considered the start of consolidation time), and ends shortly after the end of N.American close. I think of this second 8 Hour candle as the European/N.American candle. The third 8 Hour candle is basically the major consolidation period. Period.

Thus the three 8 Hour candles that total a day are considered as:

1. The Asian/European Candle
2. The European/N.American Candle
3. The Major Consolidation Candle

The 4 Hour candle charts are less often used as they don’t have as clear a correlation, but the 2 Hour charts are better for that purpose. Basically the 8 Hour and 2 Hour charts are really to see clearer than Daily candles or a more condensed version (slightly bigger perspective) of Hourly candles.

Another nice supplemental chart is the 15 minute charts. These give you more detail than the Hourly charts (for when you are using mostly Hourly timeframes for your trade). It also gives you a much cleaner view than 5

minute charts (or even 1 minute charts) when looking at the finer details for “Sailing”.

The 5 minute and 1 minute charts are not used at all for “Sailing” per se, but some of the “Sailing” techniques might benefit from an entry based on a “Surf” or a “Scalp”. If that is the case then yes you do use those charts but only to accomplish the trade based on “Surfing” or “Scalping” methodology. These tiny timeframes are thus only used for specialize purposes in conjunction for “Sailing” requirements.

So to summarize your primary charts for “Sailing” are Daily and Hourly. Your secondary charts are Monthly, Weekly, 8 Hour, and 15 minute.

ACM CHARTS

Though I’ll be specifically discussing using charts in a specialized way with the ACM broker, what I’ll be saying here can be applied to other brokers as well (if you find the need for this adaptation).

In earlier eBooks I stated the importance of using charts that display the live market data feed provided by the same broker you trade with. As I’ve pointed out before, this is important as there are little discrepancies between brokers’ prices and so you need to have the accurate information otherwise you might be making trading decisions that could lead to inefficiencies (i.e. losses). This is especially true if you are engaging into tiny trades as you would be doing if you are scalping or surfing. This is less important if you are “Sailing”, but nevertheless it is still a significant consideration.

ACM currently (at the time of this writing) only provides one set of charts based on its live data feed. Unfortunately I find this chart to be somewhat lacking in features, and simply put, I just don’t like using them. These charts are free, and as the saying goes “you get what you paid for”. From my reluctance in relying on those charts exclusively I’ve come up with a way around this problem, which I will share with you.

Even though the charts they provide have limited functions (i.e. I like to make pretty colored lines, use Fibonacci (which works strange with them), have multiple colored MA lines for S.E.X. lines (which you’ll learn about in this eBook) as all black lines is visually confusing, and I can go on with my whining) the charts are still important to use for referring to their live prices.

So here is the solution. Use ACM's charts to refer to their live prices, but use other charts for the improved functionality.

You may use whatever charting package you prefer providing the live data feed from any broker. Even though you'll now have inconsistencies in the displayed market prices this isn't a big issue for the purposes of doing your analysis as generally what you'll see on your charts should be similar enough to ACM's prices to conduct your analysis. If you see a trend on these charts then of course that same trend will be there on ACM's charts even though there might be slight discrepancies.

You do your primary analysis on the "nice" charts, then you glance at ACM's charts to confirm that everything is "good enough" before you engage into your trade.

If you already use another broker, such as FXCM or RefcoFX, and if you already have charts from them that you enjoy using then feel free to continue using those charts. If you want my recommendation then I'd suggest [FXtrek's IntelliCharts](#). Do you like the pretty charts I've shown in this and a few of my other eBooks? Well guess what, they are FXtrek "online" charts. Why do I use them? Simply because I like the ease of use and the features they provide. For a while FXCM provided a nice free version of these charts (which I used), but now you have to pay for them. The cost is still pretty cheap and I'd recommend you have them if your main broker provides a data feed to them. Hmm... I should contact them and ask them to give me a complimentary subscription since I just gave them a free endorsement.

So to wrap things up here let me restate what to do. Use the charts you prefer (presumably from your primary broker) and do your analysis on them. Before trading with ACM just confirm everything on their charts. Use the best of each charting service for your needs – *"have your cake and eat it too"*.

BROKER LAG

Here is a quick tip that isn't really appropriate for "Sailing"; it's really for "Scalping". I've included this tip here simply because I didn't discuss the topic of having multiple brokers nor multiple charts in that eBook, but did in this one. Furthermore, since scalping concepts are used in this eBook I figure that this tip isn't too out of place.

I have noticed quite often during a relatively fast (or even moderate) moving

market that if you watch both charts (say FXCM's and ACM's) that there are moments of lag between the display of prices. If you observe two competitors' charts you'll see instances when one will have a price movement and a moment later the other chart will similarly reflect that price movement.

Sometimes while trying to scalp you'll notice that the other chart will jump in price but ACM's price on the trading platform might still not reflect it. With ACM's one click dealing you might be able to occasionally score a few pips just because of the lag. The window of opportunity usually only lasts a brief second or two. This isn't something you'll make a fortune doing but is something that you can do to "scalp" a few pips from time to time. Of course you would only do this if you were thinking about trading in the direction that the price jump lag occurred in, and you already had your mouse over the order button waiting for the right moment to strike.

CORPORATIONS

In my earlier eBooks I discussed various topics pertinent to you as a trader. I've intentionally omitted the discussion about corporations until this eBook as it is a more advanced topic. For some of you reading this section (i.e. if you are already a business person) then you'll find this rather straight forward and "common sense", however for some others this will be a very valuable tip.

I will only discuss the topic of having a corporation to do your trading within only briefly for three reasons. (1) I am not qualified to offer you accounting, or legal advice (so for legal reasons that is my disclaimer), especially since (2) I have no idea where you live, and each country and sub-territory (State, Province, etc.) has different laws. (3) I just want to introduce this subject and encourage you to consult with a competent accountant and/or lawyer in your jurisdiction.

You can open a trading account in your own personal name, but as I like to say, "just because you can do something doesn't mean you should do that something". If you are new to Forex, trading a mini account or with just a small amount then perhaps you should just trade within a personal account, but if you are trading larger amounts (as little as \$5,000 but for sure anything over \$20,000) then it might be advantageous to you to open a corporation through which you trade.

There are many reasons why trading within a corporation is usually the best

choice, but I'll simply restrict myself to discussing two main topics; taxes and asset protection.

Most countries have a significant gap between the rates they tax individuals for personal income and how much they tax corporations for gains. If you plan to retain the profits you make trading within your corporation (rather than withdraw most of it for personal living expenses) then you can save substantially on taxes, and what you've saved on taxes can be compounded into even more profits. You can even reinvest your profits into other non-Forex types of investments (i.e. Mutual Funds or whatever else) and continue enjoying the tax advantages with your investments.

Furthermore your corporation can pay for some nice things for you, such as medical/life insurance, buying you a new computer (for trading purposes ;P), computer software, office supplies & equipment, telephone, Internet, cell phone, percentage of your rent/mortgage (since your office is in your home), investment related books & magazines (you can even write off what you paid for my eBooks), seminars & training, travels to exotic destinations like Hawaii (to investigate "investment opportunities" ;P), and even some possible fringe benefits (you the employee/president need to be pampered from time to time – maybe a nice Mercedes for a "job well done", leased for tax deductibility). All these things (and more) that you would normally pay for out of your own pockets (AFTER tax) can be paid for through your corporation (BEFORE tax). For this reason alone you want to have a corporation to handle your legitimate expenses, as **it adds up to HUGE TAX SAVINGS!!!**

How do you get money into the company initially? You simply lend the money to your company. Your company will be indebted to you and so when you remove that equal amount of money then you don't have to pay tax on it (since presumably you've already paid taxes on that amount in the past).

When you choose to personally withdraw funds (for living expenses, or for some nice toy) then you will have to pay full personal income taxes. That's ok. Try to pay yourself as little as needed to avoid the big taxes, and try to figure out how much of your personal expenditures can (legitimately) be purchased through your corporation.

I have heard (though I don't do this myself – yet – but I intend to learn more about this) that you can somehow use a corporation within a self-directed Retirement Savings Plan, which the Government allows you to grow tax-free. Go talk with a financial planner to see how you might be able to set this

up. I don't know about you but the idea of allowing profits to compound untaxed sounds very appealing to me. I believe (though I'm less certain about this) that even if you have to pay a small penalty for withdrawing funds (before you actually legally retire) that it is still worth doing overall.

When you go to form a corporation (which usually costs just a few hundred dollars in many places) then investigate *WHERE* to form your company. You don't have to register it in the State/Province where you live or even in your home country (i.e. I'm Canadian but have corps in the US which for us Canadians the high US taxes is still lower than our insane rates – all done legally of course). Different places have different rules and corporate tax rates. Pick the location that will give you the best corporate tax rates for what you are doing.

A word of caution to you... There is a difference between strategic tax planning and tax evasion, which your home country will frown heavily upon you for (such as charging you a big fine and throwing you into jail). Unless you seriously know what you are doing (or have lots of money to pay smart lawyers to do it for you) then stay away from "Off-Shore" corporations. Do everything you can to legally pay as little taxes as possible, but be sure to pay what you "need" to; this way you can sleep peacefully at night without dreaming of having to escape your country.

You can do a lot of preliminary research on the Internet to learn about advantageous places to form your corporation (i.e. if you are an American then consider a Nevada corporation which is better than Delaware for corporate taxes, but talk to a smart accountant for their advice). Spend some time thinking about this important decision rather than just impulsively getting a corporation anywhere from anyone. Big tip: Seriously talk with an accountant (or possibly an appropriate lawyer if you have some serious capital) to find out what is the best choice for you. The few bucks that you pay them for their time is fully tax deductible, but more importantly it might save you from making a costly mistake. Furthermore get into the habit of talking with your accountant a lot to learn how you can save every possible nickel & dime on your taxes (what you pay your accountant is money well spent).

Here is another reason to have a corporation (as if the above tax reasons weren't enough to convince you by now). Asset protection!!!

Basically (true in most places), if someone tries to sue you personally for whatever stupid reason then they can't touch your assets that are within your

corporation. Furthermore, if your corporation were to lose money or fall into some bad luck then the creditors or whoever sues your corporation can't sue you personally (unless you did something blatantly wrong, such as doing something illegal). Basically with a corporation you can sleep peacefully at night not worrying that someone will be able to take away your family home.

Let me enlighten you with a pretty nifty concept. Unfortunately we live in a rather litigious society (people try to get rich by suing over stupid things). There are two ways to avoid getting sued. (1) Own nothing (so that people won't even bother trying to squeeze blood from a stone), and (2) Do nothing (if you didn't "do" anything then how can someone sue you?). If you "do something" (i.e. if you do Real Estate investing then tenants can sue you for something ridiculous, or someone can slip on your icy driveway) then you should have two companies. Simply have an LLC company that "does everything but doesn't own anything", which dumps money into your INC. that "does nothing but owns everything". **This paragraph alone provides you with a HUGE TIP that alone, in my opinion, is worth more than what you've paid for all my eBooks.** Talk it over with your accountant and/or lawyer to get you set up properly if you think this might be a good idea for you to do.

Folks, there is a lot more I could say about corporations but for the scope of this eBook I think you have enough information to start you off with. Go do your homework researching what is the best option for you and get one started ASAP!

TRADABLE PAIRS

In my previous eBooks "Forex Surfing" and "Forex Scalping" I stressed the importance to you of restricting yourself to trading only the currency pairs with small pip spreads. The logic behind this was of course that by trading with such small stops (10 to 20 pips) that you need the smallest spreads to allow your trade sufficient room to bounce around within without getting stopped from just some market fluctuation/noise.

Some of the trades you'll be doing with the "Sailing" concept might use a Surfing or Scalping approach to entering the market, thus the above logic will certainly hold true for such cases.

Some of the trades you'll be engaging into with the "Sailing" concept might require substantially larger stops; say 50 to 200 pips. Because of this you may opt to trade currency pairs that have larger pip spreads as you will likely have

plenty of room within the stop range of the trade to accommodate market fluctuations/noise.

Although you *can* trade the currency pairs that have larger spreads doesn't mean that you necessarily should. Generally speaking, the currency pairs that have a 5 pip spread or less are the best pairs to be trading. Why trade pairs that have a larger immediate loss when you can trade pairs with lower upfront cost? Furthermore you'll find that you'll have less work paying attention to fewer charts rather than more, so stick with just a handful of pairs to focus your primary attention on. However if you notice a gorgeous trading opportunity setup on one of those other pairs then you may trade on it, but do so more rarely.

For Sailing purposes the best currency pairs are the ones with 5 or less pip spreads. You'll have plenty to keep you busy watching just those, and plenty of trading opportunities just from those. The best currency pair overall to be trading is EUR/USD, then GBP/USD and USD/JPY. Here is a list of currency pairs I'd consider worth watching in the order of my personal preference.

EUR/USD
GBP/USD
USD/JPY
EUR/JPY
USD/CAD
AUD/USD
EUR/GBP
NZD/USD
USD/CHF
EUR/CHF

If all you were to focus on is just the EUR/USD then that would certainly be enough, but if you insist on paying attention to more then place your primary focus on up to just 3 additional pairs. More isn't always better; become an expert in understanding the personalities of just a few currency pairs.

THINGS TO WATCH

This section contains some indicators and later on some technical analysis tools that are useful for Forex trading, and in particular for "Forex Sailing" techniques. There are many more indicators that are commonly used for Forex trading, but I haven't included them here in this eBook. Here I have

simply explained the indicators and tools that I'll be using for specifically "Sailing" techniques. Furthermore, with the exception of "Moving Averages", the indicators explained are ones that you are probably unfamiliar with (i.e. ATR) or have never even heard of before (i.e. S.E.X. Lines).

ATR – Average True Range

This is one of the many indicators included in most charting packages. This indicator known as "Average True Range", or "ATR" for short, basically tells you the amplitude of each candle on your chart, or more specifically for what it is intended, it tells you the *Average* over a selected period. The ATR indicator measures volatility but does not provide an indication of price direction or duration; it just shows the degree of price movement or volatility.

This indicator was developed by some guy named "J. Welles Wilder" and was introduced to the world in his book "New Concepts in Technical Trading Systems" (1978). It is important to recognize the people who developed new trading systems... especially as I would hope that people will mention me as the brain behind all the techniques I have personally developed (smile).

It is not my intention here to explain everything about ATR, especially because the way we will be using it is an adaptation to figure out something important to know for the trading techniques presented here in this book. In the next paragraph I'll briefly explain what ATR is, and after that I'll explain how we will be using it, but before I start explaining all that I need to make it very clear to you that **the ATR indicator is not a trading method, but rather is just a tool to figure out some important facts that will be useful information for the trading techniques that will be presented later in this book.**

The True Range (notice I didn't say "Average"), or TR, is simply the range of the period between the high and the low prices. Technically speaking the above statement seems to be inaccurate according to descriptions I read about TR in Technical Analysis Encyclopedias, but (and fortunately because this is what I really want) the Forex charts I like using seem to provide the TR according to the above description.

According to the definitions of manuals (usually written for stock & commodities) the True Range (TR) is calculated by taking the difference from the previous candle's close to either the extreme high or low of the candle (whichever is the greater of the two).

According to my definition (in context of how I like to consider TR) you simply take the high of the candle and subtract the low of the candle to find the TR.

After I explain how to read the TR on your charts I'll tell you how to check to see which definition your charts use, and what to do if your charts happen to use the "Encyclopedia" method.

We won't be using the ATR indicator as Mr. Wilder has intended it to be used (he developed ATR to accurately reflect the volatility associated with commodities and to account for the gaps, limit moves and small ranges). We are really just interested in the True Range (TR) and don't pay much attention at all to the "Average" (though I'll show you a useful thing you can do by finding the Average).

To find the True Range simply call up a daily chart of whatever currency pair you want. We'll discuss other timeframes (i.e. weekly & monthly) later, but let's first discuss how to find the TR and why we use it.

You should find the "ATR" option in the menu of available indicators. Simply select the ATR option and set the period for one (1). A separate chart should now appear (usually on the bottom of your main chart) showing a line that bounces up & down. You should see something like this:



The chart above shows about 8 months of EUR/USD daily candles. When you do this you should select to view the past ten (10) years worth of data to see the maximum amount of information, but the above chart was zoomed in so that you can more clearly see it here. Fortunately for me the charts I currently like to use (Intellichart from Fxtrek.com) display the ATR using the description I prefer rather than the “Encyclopedia method”.

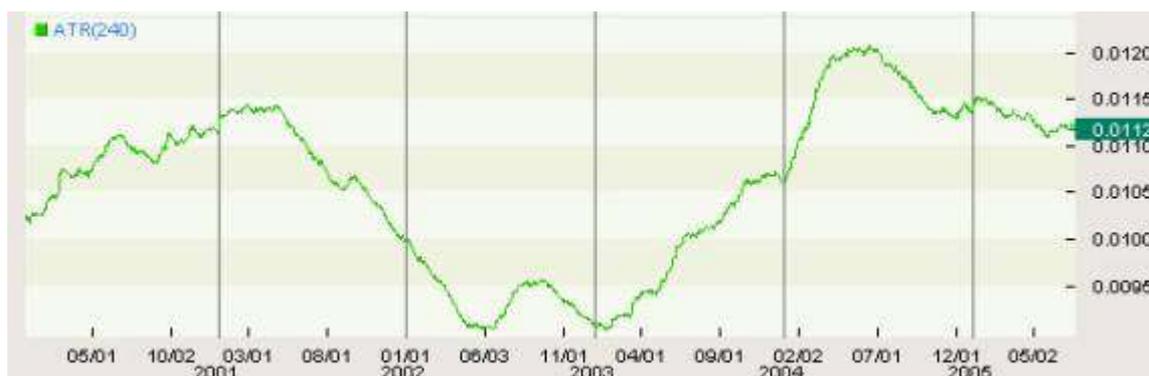
The ATR (1 period) chart shows you visually the height of each candle (the high price minus the low price). What the above chart shows you (during the period of time seen) that is of most interest is what are the largest moves; see the peaks along the top? The tallest peak visible above (near the left side of the chart) shows that the biggest move in a single day was 245 pips (to find out exactly how many pips it was simply mouse over the big candle there to see it’s specific details). You also want to look at the other peaks to get a sense of roughly what the largest pip moves that have happened in a single day. Looking at the above you figure out that roughly 200 pips is the usual maximum. Hmm... that’ll be a good term for this, so we’ll from now on in

call it the “UdM” (I just made up this term). The “U” stands for “Usual”, the “M” stands for “Maximum”. The small case “d” stands for “daily”, and later “UwM” will be for “weekly” and “UmM” will be for “Monthly”. These terms will come in handy later when I start explaining how to use them for trading purposes (later in this book). Back on topic now. So from looking at the above chart we have decided that the UdM for EUR/USD based on the past year is roughly 200. “200” is a rough guesstimate, but if you really want to get an accurate number then feel free to add up the top ten peaks then divide by 10 to get the average... but honestly I’m often too lazy to do this, so I just wing it.

Also on the above chart you can see what were the smallest daily moves (on the above chart 37 pips was the smallest day), but for the most part this is useless information (except you’ll be interested in knowing what the small end of the spectrum is for the “Teeny Netless Candles” taught later in this eBook).

Now notice that we found the UdM to be roughly 200 pips by looking at the past year. For most purposes, just looking at the past year is sufficient to find the UdM for any currency pair of interest to you. Now if you were to look over the past 10 years you would notice that there are more peaks that are higher (the tallest one I’ve found on EUR/USD is 454 pips – obviously due to some FA or big news) and by looking at this bigger picture it would appear that the usual maximum would be around 240ish. Bottom line is that this isn’t an exact number you are going for, but rather just an approximation of what the average big days are. For our purposes we’ll consider EUR/USD to have a UdM of 200 pips. It is important to remember that 200 isn’t a fixed ceiling of the maximum EUR/USD can move in a day, since there have been days that were bigger and surely there will be bigger days also in the future, but for usual 200 can be considered a ceiling for how we plan to use it.

Now you want to figure out what the Average daily Range is (we’ll abbreviate it as “AdR”). This is quite simple to do by setting your ATR at 240 (roughly how many days there are in a year). Below is the ATR set at 240 for EUR/USD since the year 2000.



This calculates for you the Average daily Range (AdR). As you can see, at the time of writing this, the AdR is 112 pips. This means that the average difference between the daily high & the daily low is currently 112 pips for EUR/USD. Remember, this is just an average – some days will move less and some days will move more.

Here is an interesting aside: Often you hear references that the market moves about X pips a day. Well now you know how to find out precisely how much for any currency pair of interest to you.

WEEKLY & MONTHLY

Now that you know how to find the UdM and the AdR you'll need to find the same information for weekly (UwM & AwR) and monthly (UmM & AmR) periods.

To find the Usual weekly Maximum simply call up the weekly chart over the past 5 years of the currency pair of interest (simply get the 10 year chart and zoom up). For this example we'll continue looking at EUR/USD.

Set up an ATR to show one period and a second ATR to show 104 periods (two years average). Your chart should look something like this:



Looking at the ATR(1) you see that 585 pips was the biggest single week during that 5 year period. Looking across most of the other tops you get the sense that the Usual weekly Maximum (UwM) would be approximately 425 pips. Getting the AwR is quite easy because the end of the line points right at the number in your ATR(104). Obviously the AwR is 244.

To find the Usual monthly Maximum simply call up the monthly chart over the past 10 years of the currency pair of interest. For this example we'll continue looking at EUR/USD.

Set up an ATR to show one period and a second ATR to show 48 periods (four years average). Your chart should look something like this:



Without much explanation (it should be obvious to you by now), I would use 775 for my UmM and my AmR is 496.

Summary of Data

From all of our examples we now know the following information for the currency pair EUR/USD.

UdM = ~ 200 pips
AdR = 112 pips
UwM = 425 pips
AwR = 244 pips
UmM = 775

AmR = 496

Please remember that the above figures are correct at the time of this writing and may not be at all accurate by the time you will be reading this. Please repeat the procedures to find all of these numbers for EUR/USD yourself in addition to any other currency pair of interest to you.

Here are a few more words about finding the Usual Maximums. This isn't an exact figure but really just an eyeball – if you really want to you could take the average of the say the 10 or 15 highest peaks (this would generally yield a higher number than the one you'd "eyeball"), but ultimately an exact number won't be any more specifically useful than an approximate one. What you are looking for is an area that appears to be the maximum ceiling for the average, though recognizing that there have been a few times that this level has been penetrated, and likely will get penetrated in the future. I guess I should instruct you to do it the "proper" way (taking an average of the top dozen peaks), and I'm sure that it would be somewhat more useful information, but telling you to do this would be rather hypocritical of me since I personally never do it.

Ok, so what are all of these ATR figures for? The answer is simple. The primary purpose of knowing the ATR of the candles you are observing (i.e. knowing the Daily average if looking at the Daily candles) is to assess the risk and likelihood of the trades you engage to reach the success target. Later in this eBook you will learn a variety of trading techniques, and for example, some of them are based on the amplitudes (how tall) of the day candles. If your stop order is placed within the range of the Daily average (AdR) then there is a good possibility that you may get stopped out by simple market fluctuations. Knowing the UdM, and seeing how far your stop order is in respect to the UdM then you will know the likelihood of a rogue large day of stopping you out (but this will happen less often). Conversely, if you are doing a "Roulette" trade then you can similarly predict how many days your trade might last until you either get stopped out or limit exit for profit. Knowing the Usual Maximums and Average Range of the Weekly and Monthly perspectives offers you similar foresight although you are less likely to engage in trades using such large stops, thus those are mostly used to help you to determine possible trade duration.

MOVING AVERAGES

Moving Averages (MA for short) is a very basic indicator known by just

about every trader. If you haven't heard of it by now then you must really be a newbie to trading. Because of it is so commonly known I won't go deep into this subject, but will touch upon it for two reasons. (1) To introduce it to those who aren't yet familiar with it, and (2) to explain the basics of it as it is the foundation of "S.E.X. Lines", which is dealt with in the next section.

Ok, the next few paragraphs are for those of you who are new to trading to understand what an SMA and EMA is. If you already know about these then just skip down a bit to get to the juicy part, or better yet just read it as a little refresher.

An SMA, which stands for "Simple Moving Averages" (some folks and charting packages simply refer to this as MA or "Moving Averages" as the "Simple" is just implied) is a basic indicator your charting package will display over your charts. It draws a line showing the average price over the past x number of periods. Lets say you are looking at a one hour chart (each candle represents one hour) and you set your SMA to "10". What it'll do then is it will add the closing price of the previous 10 candles and then divide the sum by the number of periods, in this case 10, to find the average price from the past 10 periods (ten hours in this example). This is a simple math procedure you've learned to do in elementary school. With each successive period (new candle to the right) it redoes the computation of calculating the average of the past 10 periods by removing the last candle (the now eleventh candle to the left) and adding the newest candle's price into the average. It keeps redoing this calculation for all the candles displayed on your chart and then plots the average prices onto your chart. Since the prices keep moving, thus changing the average price, the line moves following the current market moves, hence why this is called a Moving Average. The chart below has a green line showing the 10 period SMA.

An EMA, which stands for "Exponential Moving Average" is another basic indicator your charting package will display over your charts. Like the SMA described above it also creates a Moving Average price line on your charts however the main difference is that the SMA computes a simple average where each period is valued equally whereas the EMA places more emphasis on the more recent prices. As the more recent prices are valued more than the older prices the "average" price tends to be closer to the current market price. The chart below has a purple line showing the 10 period EMA. **What is important to notice is that though both lines show the same moving average period the purple one (EMA) is more responsive to the actual market fluctuations, and you also see that it crosses over the green line (SMA) after the market changes directions.**



Some charting packages also have a WMA option. This stands for “Weighted Moving Average”. As explained in the previous paragraph discussing EMA, the WMA places more emphasis on the more recent data but the way it is calculated is different. Feel free to experiment with it if you want, but you’ll find that all you’ll be working with are just the SMA and EMA lines.

How are these lines used by traders? There are two common ways (an advanced method is exposed in the next section). Method 1 is that traders pay attention to when the market price crosses over a certain period MA (usually just one line on the chart). Method 2 is that traders pay attention to when a shorter period MA crosses a larger period MA (usually two lines on the chart).



The chart above shows EUR/USD daily candle view. On this chart I've put a 50 period SMA (the yellow line) and the 200 SMA (the green line). This is to illustrate "method 1". Normally a trader would just have one MA line (either simple or exponential), but I've put two lines on this chart to contrast different periods. Actually, what I just said is not completely true. Traders often do have multiple MA lines for this method simply to watch when the market penetrates through any of those lines.

With "method 1", traders plot the MA lines on daily charts (usually a SMA) to watch when the market crosses the line. Common daily periods observed by many traders include 50, 100, and 200. Why these numbers? Well some people may give you some nice sounding rationale behind these numbers but truthfully they are just nice round arbitrary assignments; you could use weird numbers like 47, 108, and 222 about as effectively. Ok, I've heard arguments that 50 and 200 statistically have performed with excellent results to act as significant resistance/support levels, and to some extent would agree from what I've observed though I didn't conduct any statistical analysis myself.

A lot of trader's resource websites make mention of when the market crosses these significant MA lines. Many traders consider penetration of these MA lines to be a significant event. Why? Well just look at those lines on the chart above. Notice that when market touches/crosses the line that soon after the market races off for quite some time (trending) before it eventually reconnects with that same MA line.

There are many traders that ONLY trade based upon when the market connects with the MA line. This is such a simple indicator, yet it is soooooo very powerful, and if you were to only trade based upon this then you would do quite well for yourself.

Earlier on I mentioned that there was another method, "method 2", of how traders use these MA lines. This simply involves having two MA lines (either simple or exponential) and observing when the two lines cross. The chart below shows EUR/USD hourly candles with a 5 period (yellow) and 20 period (green) SMA. The numbers 5 and 20 are commonly used for this method on various timeframes, but you can play around with other combinations.



How traders use these crossing pairs of MA lines is they observe when the smaller period line crosses over the larger period line and they attempt to trade in the suggested direction (which way the small line crossed; up or down), and preferably when the market is moving in the direction of the prevalent trend (as you'll notice that the lines may briefly cross opposite the direction of the trend in retracements).

Though many traders are familiar with the concept of this method, most are also familiar with its major drawback – the drawback is that it is a “lagging indicator”. This means that it clearly shows the direction of the market, but only AFTER it has already begun to do so. This indicator has little predictive power, and often once the opportunity is recognized the trader may only jump into a trade late in the game; often too late. That said it does still have value as when properly done a few nice trades can more than compensate for a few losers, or breakeven trades.

The next section will explain a technique I've developed called “S.E.X. Lines” which takes the concepts discussed above, combines them, and expands upon these concepts to provide a more advanced technique to take advantage of all the individual uses of MA lines. This synergistic combination in fact adds an additional perspective useful to analyzing the actions of the market.

Before I complete this section I'd like to point out that though I've stated that the MA line methods explained in this section are rather simple and common knowledge to most traders, they are still powerful techniques. Later in this eBook we will revisit and touch upon this subject to see how these concepts

may be integrated with the trading techniques that will be later elaborated upon.

S.E.X. LINES

Yes, a lot of Forex trading tools are quite “sexy”, however this one is really simple, yet surprisingly powerful. S.E.X., as I like to call it, stands for “Simple / Exponential crosses (X)”.

A lot of traders use “Simple Moving Averages” (SMA for short) and/or “Exponential Moving Averages” (EMA for short) as part of their trading toolbox, however here I’ll show you some adaptations I’ve come up with using these basic indicators. Chances are that even if you are an experienced trader you haven’t used this or a similar technique, and will probably be rather impressed by the power of it.

A lot of traders are familiar with the concept of moving average crossovers, but like I said before the S.E.X. technique adaptation of MA crossovers goes a little bit further than most people have ever considered, as I’ll explain.

It is common to have two SMAs or EMAs of different periods (i.e. a 10 period and a 20 period) and watch as they cross over each other. As the shorter period crosses over the longer period it shows the direction that the market is trending in. If the shorter period (i.e. 10) is above the longer period (i.e. 20) then it is because the market has been moving up. If the shorter period is below the longer one then it is because the market has been moving down. Again, this technique is commonly used by traders, and most traders know of it’s limitation – the limitation is that MA crossovers are a “lagging indicator”. Lagging means that it shows the direction the market is moving in AFTER it has started to move in that direction. Thus MA crossovers aren’t some kind of psychic predictive tool, however it still does serve the purpose to help you spot when the market changes direction to be able to respond accordingly.

Let us now begin to explore how the S.E.X. lines technique works. You’ll soon see how it resembles yet differs from standard MA crossover techniques. We’ll start by looking at it’s simplest aspects and then progress to more detailed variations.

S.E.X. Variation 1

Simply put, the example from above shows this variation of the “Simple/Exponential Cross”. If you are used to using MA crossovers by combining MAs of different (but close) values then you could simply switch to using a couple of S/EMAs of the same value. It will yield similar results and you’ll find that they are nicely sensitive.

The smaller the period the more sensitive will be the crossovers thus more quickly showing small changes in the trend (i.e. fibonacci swings & minor retracements), and the larger the period the less sensitive (to market bouncing fluctuations) will be the crossover thus showing you the prevailing trend.

Traditional MA crossovers, as well as the basic S.E.X. technique is useful to the trader to show trends in the market and to signal changes in market direction. Though some traders employ trading strategies that they enter/exit the market whenever their lines cross (I’ve met some traders that basically use just this technique profitably) I wouldn’t recommend it. **The primary purpose of watching MA crossovers, and of course S.E.X. crosses is to help you to make trading decisions in conjunction with other technical analysis tools. THEY ARE NOT MEANT TO BE USED ALONE.**

What periods should you use? Feel free to play around & test using whatever period you want, however the periods I use & why are explained below.

One more note here – you may notice that a pair of S.E.X. lines has similar properties to MACD (Moving Average Convergence Divergence). Though they share some commonalities they still behave a bit differently, and more importantly because S.E.X. lines are superimposed over your charts it helps to more clearly see, visually, certain indications that wouldn’t be as apparent by just using MACD. Loosely defined, S.E.X. lines combine some of the elements of MACD and MA crossovers, yet they have their own properties altogether.

S.E.X. Variation 2

This is where the value of using S.E.X. starts. It’s power is when you use and combine multiple S.E.X. lines. Here is what I do and my justifications for the periods selected.

Pull up a chart (of whatever your favorite currency pair is) and set it to show you daily candles (one candle = one day). On this chart you will have 6 MA

lines (3 SMA and 3 EMA), which are 3 pairs of S.E.X. lines. Set one pair for 5, the second pair at 20, and the third pair for 60.

Ok, why these periods? Some traders use arbitrary numbers for their MA crossovers, and it works for them, however I like to use these numbers on a daily candle chart for a specific reason. 5 corresponds with a week (since there are really only 5 trading days in a week), 20 is for a month, and 60 for a quarter of the year (3 months). You can of course add even more S.E.X. lines if you want a semi-year, year, or some other kind of period, and you are more than welcome to play around with those as well.

I often like to have 10 as it is two weeks or half of a month, and I like working with it, however for demonstration purposes here the charts will begin to look too confusing though you'll find that this is really useful in between your 5 and 20 as it makes a nice early show. Bring up another chart and duplicate your lines on it, however just replace the 20 with a 10. You'll soon see how this is useful.

In the next section I'll discuss periods to use when looking at charts other than daily charts.

Now that you have all these lines on your chart it can start to look confusing. It is important to change the colors of your lines to make them easy to distinguish from each other. I always like to make my smallest period EMA green (in this example it is the 5 EMA line); green because it is what I consider to be the "money line". The green money line is the one that most closely follows the actual price movements, and when it crosses the other lines on your charts it will show you (to describe it simply) the direction the market is currently moving in. I'd recommend that you also make that line green on your charts, whereas all the other ones don't really matter what color you make them though I have my own personal preference for color groupings as I'm sure you too will come up with your own preferred color sequences.

Here is an example of a section of EUR/USD daily that shows some key features of using S.E.X. lines.



The above chart shows daily candles of EUR/USD between the dates of 09/02/2004 to 02/15/2005 with the 5, 20, and 60 S.E.X. lines drawn. I have selected this chart snippet because it nicely illustrates a few key points about this technique. Take a good look at what the lines are doing in the chart example above, and look at some live charts on your own before reading the next section. Just be looking you should begin to see some interesting things that these lines are showing you. When you are done studying some live charts come back here to read what I wrote and compare it with your observations.

S.E.X. Lines Techniques 1

Here we'll look at some of the key things to look for when using S.E.X. lines on a daily chart.

BUNCHEd – There are periods of time that your lines will appear bunched together; kind of messy. What this is showing you is that there is no clearly established trend. The markets are moving sideways – they go a bit up, they go a bit down, and keep bouncing within a rather small range. You should

already be familiar with the concepts of “consolidations”, “ranges”, “triangles”, “channels” and other sideways-moving market phenomena by having read the eBook “Forex Surfing”.

Since you are looking at daily charts (a bigger picture chart than say a 5-minute chart), when you see “bunched lines” this indicates that the markets are (on a rather large scale) consolidated, and that you should be looking at a few particular styles of trading. Suggested styles of trading would be range trading techniques (i.e. Channel Surfing Zones done on a large scale), and Forex Surfing techniques working on catching the “micro trends” that develop inside the large scale consolidation (after all, markets can be trending up/down for days within the large scale sideways movements).

Here are a few chart shots showing some “Bunches”, along with my commentaries:



Messy as heck, the lines clearly show that there isn't any prevailing trend in the market. Obviously time to employ short term trading techniques to capitalize on the small trends that last just a few days (good profits to be made doing that of course).

Here is an interesting observation to make that can be clearly seen on the chart above... notice how the bunched lines can sort of show you approximately the mid-point of a consolidation. One useful application of this is to look for opportunities to get into the market (long when below the bunch, short when above the bunch) and to start tightening your stops when you get over to the other side of the bunch to exit the trade when it starts to turn around. Of course you would use techniques to enter the trade once your technical indications show that the market has turned for you, such as “Channel Surfing Zone” techniques, or surfing Forex waves when the smaller trends have shown clear reversal patterns and are moving back inwards. Though you can profitably surf the smaller trends within the large-scale consolidation pattern shown by the “Bunching” you must remember that sooner or later this sideways trend will end, a large-scale up/down trend will develop, and you’ll need to quickly change your trading strategy from a consolidation trading approach to a trend trading approach, especially if you want to catch on early to a gorgeous trend that could potentially last for a few thousand pips.



Here you see another “Bunch” that occurred after a nice trend and before continuing on with the same trend (we’ll get to trends shortly).



This chart here is a little zoomed out so you can see a few places where you got bunches, and how they can appear differently. Notice that in the first circle (the big one on the left) it formed a triangle pattern where the lines bunched. After the market broke out of the apex of the triangle formation it trended upwards and sort of paused in a small consolidation (second circle) where the 5 & 20 S.E.X. lines bunched (but not the 60 as it couldn't catch up yet). The market then exploded upwards and then got bunched in a large consolidation (circle 3) that still had an upward slant. I just want you to see that bunches can be large, small, in a perfect sideways motion, slanted, in a triangle, or just about any sideways moving variation you can think of.

Parting thought about the “Bunch” – sooner or later all trends have to end, or a pause in a trend must occur. When the markets loose steam and become indecisive before a trend change happens you'll see a bunch happen. **The bunch is your friend (this won't rhyme eloquently like the well known cliché) as it presents excellent trading opportunities (within the consolidation) and because it too must eventually end by becoming your BEST friend, the start of a trend!**

TRENDING – Here is when “going Sailing” can get fun, as successfully catching a nice trend that can last for weeks, or sometimes months, can mean

racking up hundreds or even thousands of pips. Obviously this will positively affect your account balance as well as your confidence levels.

If you look at any chart over the past 10 years you'll see that every year there are a few significant trends... always following a "bunch". What this should mean to you is that this isn't something you can expect to happen every day (or even every month), but if you wait patiently sooner or later a good opportunity will come around (meanwhile trade other strategies).

Here is a chart that shows a trend that has developed after a "bunch".



Looking at this chart the first thing you'll notice is that your lines separated (became un-bunched). Though they started to un-bunch you still need to wait until the market moves beyond a technical price point. Like I said before, you don't just use the S.E.X. lines alone to form trading decisions, but rather you use them in conjunction with other techniques. Here I drew a horizontal line (as you can see on the chart) at 1.1083, which is at that previous high. Until it crosses over I don't go long as the market may turn around before that as it may still be in a consolidation pattern. Basically you'd enter similarly to "Surfing" by waiting for a nice small wave (which always happens) once it crosses this technical level. In this case you happen to have a nice wave

(circled) that happened right at that technical level (actually it was 1.1076, but close enough) that you could enter in on either using a big surf (having a stop set at the low of 1.0932 = 144 pips after you got in), or if you were to be bolder you could have tried catching a tiny surf (using more lots thus ultimately getting more potential profits) the following day by stalking a micro trend that happened after the breakout. Soon after entering the trade, once your assessment would indicate that it would be relatively safe to do so (so as not to get stopped out prematurely before the trade has any chance to go profitably) you'd set your stop at a break even point.

If you were to look at the chart again you'll notice that I also drew a trend line. What is more interesting is that the 20 S.E.X. line acts kind of like a moving trend line in itself. Here are a few interesting characteristics of the 20 S.E.X. line as a trend line.

In this chart the 20 SMA is black, and the 20 EMA is purple (remember, on your charts it doesn't matter what colors you choose). Notice that as the market has started to trend upwards the purple line crossed over and stays above the black line. This shows you that the market is now trending up. The farther apart these lines get shows how strongly the market is trending. The closer they get can show a slow down in the momentum of the trend, or if they start colliding towards each other it may mean that the market has begun reversing. (Those of you who are familiar with MACD will notice the apparent similarity, and hopefully will recognize the benefit of using S.E.X. over just using MACD – they work well together too). Looking at the chart you'll see that near the beginning of this trend the purple line was strongly above the black line showing that it was trending strongly. Near the middle of the trend there was a retracement down, and notice how all of a sudden there the purple line got closer to the black. After that they got narrower and narrower unto (poof) they crossed over, yet the candles are still well above the 20 S.E.X. lines. This doesn't necessarily mean that your trend has ended, as it could simple be the equivalent of a trend line bounce, as it may pick up steam again soon, however you do need to pay attention to what happens next.

Notice on the chart that in this case the money (green/yellow 5 period S.E.X. lines) dipped down and touched the 20 period purple/black S.E.X. lines. You pay attention to whenever your 5 and 20 period S.E.X. lines touch or cross as this is to be interpreted somewhat like a trend line bounce or cross, especially when the actual candles strongly penetrate the 20 line (in this case the candles just touched the 20 line).

Looking at the bigger picture you notice that we've seen a few tweezer tops

(for those of you who are familiar with candle stick techniques), we're getting close to our trend line, our 5 and 20 S.E.X. lines appear to be bunching, and it formed a double top (a potential trend break pattern). Needless to say, when you start seeing things (such as the stuff mentioned above) you start to get antsy, and you bring in your stop loss tight. In this example I've drawn a line at the bottom near the top that would be the obvious choice to place your stop at (1.1629). Soon afterwards your candles plunged through the trend line and the 20 S.E.X. line, getting you stopped out at that level.

What would have been the P/L of this trade? Let's say you got in at 1.1076 and got stopped at 1.1629 then you would have captured 553 pips total, then take away the interest (almost two months worth). Let's just round it to say that your total net profit would have been equal to roughly 500 pips. Each lot you could have traded (using proper equity management) would have gotten you about \$5,000. Not bad for a trade lasting under 2 months, especially considering that this example is more or less just an average example and by no means one of the more impressive ones that happen quite often. Also keep in mind, if you noticed the suggestion mentioned earlier that you enter this opportunity by finding a suitable "Surf" on a suitable micro trend after the key technical entry levels, that by using proper equity management principles you could have entered this trade with 5 or more times the amount of lots you would normally enter with by the bigger method (but would of course require more precision timing on your part), thus such a trade could have easily gotten you \$25,000+ starting with the same amount of account equity. This reinforces why I like to use the techniques taught in "Forex Surfing" as a way to enter in on trades that would normally require significantly larger stops – smaller stops mean I can trade more lots for the same ultimate risks (keep in mind that it's not a completely balanced trade off as a smaller stop also makes it more likely that you could get stopped out by simple market noise, however the extra profit potential justifies the additional risks in my opinion).

To illustrate that the above example is by no means exceptional take a look at the past year (at time of writing) of the following chart of EUR/USD between 06/28/2004 and today 07/11/2005.



The huge uptrend on the left is basically a replay of the example we just discussed in detail. This one could have yielded between 700 to 1000 pips (depending on how conservatively or boldly you played it) within 2 to 3 months (you do the math of approximately how much this could have profited you by the size of your actual account using proper equity management principles).

The huge downtrend on the right that is still in progress to date would yield, so far around 800 pips. What is interesting to notice is how near the bottom there it has been rebounding off of the 20 S.E.X. line as though it was some kind of a trend line. Sooner or later this down trend shall end, and we'll see how far it ultimately goes.

ENDED – This was touched on in the previous section (Trending) as all trends eventually end but I'll try to elaborate some more here.

You know the cliché, “what goes up must come down”, well for S.E.X. I think of them as being magnetic, hence “what separates must come together” (Conversely, when bunched I think “when together it'll separate”). All good

trend cycles sooner or later come to an end, and then the whole cycle repeats itself.

So how do you recognize when your profitable run is coming close to an end, and more importantly when to tighten up those stops to maximize what you'll exit with? This is what we'll attempt to look at here.

First of all realize that trading isn't an exact science, it's more of an art. That said, however, you do have specific trading rules to follow so you don't just leave it to chance. Sometimes by following the rules you score perfectly, getting stopped out near the peak of the profit potential, and sometime you cut yourself short from the maximum profits. Generally speaking, by following the "rules" unemotionally you'll "win" most of the time.

Take a look at the following chart of GBP/USD:



Near the top you have a nice triangle formation and inside (especially near the apex of the triangle) your S.E.X. lines have bunched up perfectly. Soon after the breakout you would have been trying to find a suitable place to jump in using any of several entry techniques as you have established that some kind

of trend has begun (also noticing that your S.E.X. lines have spread apart nicely). You had a strong down trend for several days, and then it weakened but continued to down trend. So far so good.

What happened next? (look inside the circle) Well, as the trend began to loose steam you notice that the 20 period S.E.X. lines (in this chart purple is the 20 EMA and black is the 20 SMA) began to converge together... and then they crossed. Two days after they crossed they got penetrated by the candles.

At this point you would be justified in feeling somewhat nervous and wanting to exit to preserve your gains. But hold on. What you do is you start tightening up your stops. Don't manually exit the market UNLESS the market has started to make a dramatic reversal and the candles have made a severe punch through the 20 S.E.X. lines. In this chart example they haven't, so we don't panic. **It is common that as a trend nears it's end that the market will approach or even poke through those lines.** This is usually your first clue that the trend is likely to soon end, but as you'll see in this example it isn't necessarily the case.

Next the market kept on moving down (whew). You would now set your stop to be at that high to protect the profits you have made thus far.

Then the market moved back up and consolidated. Your green money line (5 period S.E.X.) has crossed over your black 20 SMA, but surprisingly not the purple 20 EMA. Usually when the 5 crosses the 20 S.E.X. lines it's pretty much game over for the trend and you tighten up your stops just waiting to exit. That second red candle that formed a high would be your obvious choice to reset your stop at after the market moved down a bit a couple days later.

Well, most often this would have been the end, but surprise surprise you got lucky! Your 5 & 20 S.E.X. lines got bunched inside what appears to be a little triangle formation (a pause in the market), and then it continued to trend again! Having followed the proper rules of trailing your stops in this case didn't result in getting stopped but allowed you to remain in the trade going for more profits (I was quite pleased when this happened).

As you can see, this chart is in real time and the trading opportunity is still in progress (trade isn't over yet). So far this one trade is well over 1000 pips in just 2 months!

I just wanted to start off by showing an "ending" that turned out to not be an ending, but rather a continuation. Often situations like this end up retracing to

some fibonacci level far enough to have gotten you out of the trade, but now you see that though sometimes you seem to get out “early” by following the rules, sometime the rules do end up working in your favor. Ok, so now let’s look at a real “ending”.

Take a look at the following chart.



Here is another GBP/USD late in 2004. Near the beginning you see that your 5, 20 and 60 S.E.X. lines are nicely bunched (**always prefer to start when your 60 S.E.X. is bunched**). Though there are certain technical reasons that indicated the potential of this move to the left of what is shown on this chart, it wasn’t the easiest to spot (nor wouldn’t have been your most confident entry), but this chart snippet nicely shows the “ending” signs, hence why I am showing you this here. Obviously we are looking at the major uptrend here.

Near the bottom you see your 20 S.E.X. lines are diverged quite a bit indicating a robust shot up, but soon after the initial upsurge the start closing together as the market quickly loses its momentum. The 20 S.E.X. lines end up crossing making you suspect that perhaps this was a short lived “trend”, and you start trailing your protective stop losses even tighter “just in

case”. Notice however that the candles don’t penetrate through the 20 S.E.X. lines and continue making progressive higher highs and higher lows. Obviously this is all good and you are still in the trade.

All of a sudden the market makes a strong upwards move for about a week and a half (“that’s nice” you think), and the purple 20 EMA makes a reappearance crossing above the black 20 SMA. So far so good.

Then the inevitable happens – the market retraced back down. Here it poked your 20 EMA, remembering that this usually indicates that your friendly trend could soon come to an end you raise your protective stop loss to that low after the market went back up (had it made a dramatic run through the 20 S.E.X. you might consider a manual exit, but it didn’t in this example).

The market went back up somewhat then receded down again. You noticed that your 20 S.E.X. line has again crossed over (purple under black). The green money line keeps creeping closer to the 20 line until sure enough it crosses. You keep in mind that you have your protective stop already set at that last significant low so you don’t worry about it until the market moved up again so that you could reset it to the more recent significant low. There then followed another low that is just marginally higher that you could reset your stop at.

Finally the death of your trend occurs when you would have got stopped out at 1.9117. The candles and the green money line have reversed going south, just as you could now go somewhere south (i.e. a nice beach in the tropics) from the profits you exited this trade with.

ADDITIONAL NOTES:

(1) I have mentioned this earlier, and I’ll restate it here with some more emphasis. **S.E.X. lines are NOT meant to be used alone as your only tool for making trading decisions.** Making the decision to enter into a trade MUST be based on a combination with other technical analysis “reasons”. S.E.X. lines are an excellent indicator to show the relative strength of a trend, including probable trend beginnings and signaling an anticipated trend ending. Use them to help you see potential trading opportunities and to monitor active trades, but be sure that you also look at the “big picture” presented by multiple technical analysis methods to get a better impression of likely market behavior.

(2) Notice that the above examples of using the combination of 5, 20 & 60 S.E.X. lines on daily charts have been on EUR/USD and GBP/USD. This is because I have found that on these particular currency pairs this specific technique variables work rather well. In my previous book “Forex Surfing” I emphasized that each currency pair has its own “personality” (please reread that discussion). Due to their distinct personalities you’ll find that a 5, 20 & 60 combination of S.E.X. lines will have varying “accuracy” on different currency pairs. The most common “problem” I have noticed on some currency pairs is that retracements in a trend are often large enough to signal a trade exit based on the above mentioned “ending” techniques. You need to spend some time studying the charts of the currency pair you would like to be familiarized with in order to get a good impression of its natural personality. Put the S.E.X. lines over the currency pair of your choice looking at daily candles over the past 10 years. Zoom in sufficiently to be able to clearly see the candles and the lines. Starting at the left side of the chart slowly pan to the right studying the properties of bunches, separations and endings. Repeat the study by replacing the 20 S.E.X. lines by 10 and 30 to see how these variations appear to work on your chosen currency pair. Look at every trend that has developed over the past 10 years to see the characteristics of how it developed, progressed, ended, and see whether an aggressive or more relaxed trailing stop would have yielded better results. Spending a couple of hours doing this should get you to become familiar with the currency pair’s personality, and have refined the S.E.X. technique to be better adapted for this currency pair.

(3) I didn’t adequately cover this earlier, so figure that here can be a good place to further discuss the purpose and value of having both the Simple and Exponential moving average lines. Generally speaking, the Exponential line of the pair of lines is considered to be the “money line” as it is usually closest to the spot price, however the term “Money Line” is to be considered to be the smallest Exponential line (the 5 Exponential line in the examples above). Why do we have the 5 Simple line as generally these lines are so close together that it is almost disregarded? It is there as it shows the short-term direction (which side the Exponential line is on), the relative strength of the momentum (by how diverged, or far apart, the lines are), and quickly responds to market slowdowns, or more importantly, to market turnarounds. The same is similarly true with the larger period S.E.X. periods, however your 20 S.E.X. lines are more for mid-term, and your 60 S.E.X. lines are more for long-term. An interesting characteristic that you should notice especially on the larger S.E.X. lines is that after the market reverses the Simple line keeps on moving in the direction of the trend, whereas the Exponential line more quickly responds in moving with the reversal. If you

were relying on just one moving average line (either Simple or Exponential) as most traders do then which should you choose? Each presents a slightly different picture, however you don't have to just pick one or the other as you can benefit from both of them... and to use the cliché here (“greater than the sum of it's parts”), using both presents more information than the value of both used individually.

(4) Someone once asked me why not simply change the charts from displaying candles into showing a simple line chart. Obviously you can get a nice view by simply having the spot line intermingled with the S.E.X. lines. I recommend against this because you lose a dimension of information that is presented by the candles; the candles give you a wealth of information if you read them correctly. Furthermore, a price line only gives you a shallow perspective of price movements, not showing any spikes. A final reason is that by having 7 lines on the page it is easy to lose perspective of where the price is, but candles clearly keep this in view. To conclude feel free to try out using a simple line chart, but sooner or later you'll come to the same conclusion and you'll revert back to the candle view.

(5) I have mentioned my reasons for using specific periods for various S.E.X. lines, but it is important for you to realize that though the choice to use MA periods that correspond with calendar based timeframes is still arbitrary. Yes, by using periods that correlate to timeframes considered significant to man (i.e. weeks, months, quarters, etc...) does appear to be useful for a number of reasons (i.e. certain key Fundamental Announcements occur on regular timelines) there is nothing intrinsically magical about using those specific numbers for your periods. Could you use “17” or “24” as opposed to “20” on your daily charts? Sure you can! I believe that using certain key numbers correlating to calendar time is better than any other number (and I'm sure that many experienced traders would agree), however there is nothing wrong with using numbers that don't have any obvious correlations as long as it seems to work for you. Furthermore, I said that I use “20” because it correlates with a one month period (minus weekends), but that is actually inaccurate. 20 might work for the month of February (except for leap years), but all other months have 30 or 31 days, and so 20 isn't really equal to a month, and by extension 60 is even more inaccurate to be called a “quarter” (of a year). In conclusion you use periods that make sense to you to use by whatever logic seems reasonable to you. So feel free to play around and experiment a bit (remember, playing around with your charts and spending time with them is the best way to learn to train your eyes to recognize trading opportunities, plus experimentation leads to new innovative trading methods <how do you think I came up with most of my personal techniques?>).

S.E.X. Variation 3

Alright, let's look at some other time frames. As discussed in the section dealing with chart time frames, it is important to look at different views to see the same thing (currency pair) from different perspectives. It is amazing how looking at a different time frame can give you clearer insight into what the market could be doing, especially when looking at larger time frames. Here we'll look at using S.E.X. lines on weekly and monthly charts.

On weekly charts I like to have my S.E.X. lines set at 4 (representing a month), 12 (a quarter of a year) and 26 (half a year).



The above chart shows EUR/USD (weekly view). As I like to say, the macrocosm is similar to the microcosm. If you didn't know that this was a weekly chart wouldn't it resemble all the smaller charts you are familiar with, and wouldn't it appear that you could use familiar technical analysis trading

strategies (except the pips are larger of course)?

Anyhow, back on topic. The above chart shows a complete cycle from a tight bunching in late 2001 (near the apex of a humongous triangle formation), then a series of beautiful uptrends (plenty of profitable opportunities) and then in mid 2004 it bunched up together again (of course there was a short bunching in late 2003).



Here is a monthly chart of EUR/USD with S.E.X. lines set at 6 (half a year), 12 (a year) and 24 (two years). I don't even think that I need to explain anything here... by now you should understand just by looking at this chart.

What is important to note is that you don't trade exclusively at these levels (weekly or monthly). The awesome thing is that by analyzing weekly and monthly charts makes it relatively easy to predict where the market is likely to go over the next few weeks. You then take this valuable information back to smaller time frames, and if your analysis of the big picture matches your analysis of the smaller picture then you can trade with greater confidence.

As I mentioned just a couple paragraphs earlier, these chart will show the same trading opportunity formations you have already learned (the macrocosm reflects the microcosm). Though it looks like something you could trade (i.e. going “surfing”, trading a triangle or a channel breakout, a candle formation, or whatever) you don’t engage in such a trade for two reasons. (1) The time frame is usually huge, but this really isn’t the problem as long as it keeps going profitable. (2) The real reason is because the required stop loss would be enormous. The better strategy (as I strongly address in “Forex Surfing”) is to look for a smaller opportunity (i.e. a surf) in a smaller time-frame going in the direction of the larger scale forecasted direction. This way you can enter a trade using a smaller stop loss (thus allowing you more lots for the trade using proper equity management).

Let me emphasize this point to make sure you’ve gotten it. **You look at these huge scale charts to better see the predominant direction the market is moving in, then you use this information back in smaller timeframes to set up a smaller trade that can potentially “sail” for a long time profitably in the direction of the prevailing larger timeframe trend.** If you really grasp this one point you’ll have a great “secret” that many traders seem to be unaware of... and this can result in huge improvements to your trading regardless of what trading strategies you use (either techniques you’ve learned from me or from other educators).

S.E.X. Variation 4

8hour and 4 hour.

We have already looked at S.E.X. lines on daily, weekly and monthly charts, so now let’s swing our view towards the smaller perspectives. Here we’ll look at 8-Hour, 4-Hour, and 1-Hour charts.

As you have already seen when we looked at the weekly & monthly charts, the S.E.X. lines’ periods have to change to accommodate the change of candle periods. Obviously the same holds true when looking at these smaller time frames.

Mirroring S.E.X. lines from larger charts is pretty easy to accomplish on smaller charts. You simply multiply the S.E.X. line periods by how many of the smaller candles on the smaller chart equal just one candle on the larger chart.

In the case of looking at an 8-Hour chart compared to looking at a daily chart you simply multiply the S.E.X. line periods by 3. In case it isn't obvious to you (I hope I'm not insulting your intelligence but some people need this pointed out) there are 3 eight-hour periods in a day ($8 \times 3 = 24$ hours). Thus to mirror the 5/20/60 S.E.X. lines from your daily chart you simply set them to be 15/60/180 on your 8-Hour chart.

Here are a few important points to be aware of:

- 1) The S.E.X. lines won't be *exactly* the same as on larger timeframe charts as the averaging calculations take into account smaller fluctuations that are visible on the smaller charts that got smoothed out by the larger timeframe charts (because multiple candles on the smaller charts get amalgamated into just one candle on the bigger charts). Generally speaking the effects of this is rather negligible, so don't worry about it.
- 2) When you start using MA lines with large periods (i.e. 180) you need to be aware of a potential limitation that could affect what you see. Charts generally present a fixed number of candles (showing only a slice of time). On some charting packages your MA lines won't be accurate on the left side of your charts because there weren't enough candles displayed to calculate the average of all the price candles necessary based on your selected amount of periods for your MA line. To clarify this let me give you an example. If you put an SMA line on your chart with a period of 20 then the first 19 candles on the left of your charts will not have an accurate SMA line due to the fact that there obviously weren't 20 candles to the left of each to make an accurate average based on 20 periods. On charting packages with that limitation then you need to be aware that using a large MA line (i.e. 180 periods) can mean that most of your chart may not display that line properly (when, for example, your chart only shows say 300 candles).

The "solution" to this is to use the largest slice of time available to allow for the most amount candles to be displayed, then just use your zoom function to get a closer look at the area of interest to you. By "largest slice of time" I mean you select the longest period of time available on your charting package based on the candle view you want to see. For example, my favorite charting package allows me to view 8-Hour candles over the past 5 days all the way to 40 days, with various increments in between. I always prefer to get the largest time and then

zoom into the area of interest to me (being able to see more information helps to gain a better perspective of where the market has been to be better able to anticipate where it can go in the future).

The above mentioned “problem” isn’t an issue with all charting packages. Many of the better charting service providers have built in the ability for the charts to be able to query their servers to find out what the data was from sufficient periods prior to the first candle displayed on your chart so that the MA line drawn over even the first candle on your chart will be accurate.

Earlier I mentioned that on the smaller timeframe charts you can “mirror” the S.E.X. lines used on the larger timeframe charts by simply multiplying the S.E.X. line period from the larger chart by the difference of equivalence of the smaller chart time periods. Well, yes, you can simply “mirror” your lines, however I prefer to use different periods for my S.E.X. lines which I’ll show you here, but please study some charts using both variables to see the differences. When we looked at weekly & monthly charts we adjusted to looking at proportionally larger S.E.X. periods that fit better with those views, and so when looking at smaller charts it is also good to change the periods to be more meaningful on these charts.

On 8-Hour charts I like to set my S.E.X. periods to 15, 30 and 60 (which correlates to a week, 2 weeks, and 1 month – all factors of 2). As I have mentioned pages ago about periods being arbitrary choices, you can feel free to play around with the numbers yourself, but I’m sharing the numbers that I like using.

Take a look at the 8-Hour GBP/USD chart shown below.



First thing to notice is that the “money line” (here 15 is equivalent to the 5 on the daily charts) becomes more important as an indicator than in the larger charts. It is still important (as before) as an indicator to watch when it approaches and crosses the larger S.E.X. period lines, but it now takes on more importance to watch as the EMA line crosses over the SMA line. As we have discussed before, on which side the EMA line is and the degree of separation between the lines is significant. Below I’ll explain an interesting characteristic of the “green money line” that is better seen on these smaller charts.

As stated before, most traders are familiar with the concept of MA crossovers, and it is generally understood that smaller periods are more responsive and crossover sooner than a combination of larger MA pairs. Well it doesn’t take a rocket scientist to realize that a smaller period S.E.X. line pair will crossover sooner than a larger period pair. Watch the short 15 period pair as it’ll quickly crossover (much faster than even the 30 pair) and it quickly signals either a slowdown in the market momentum or let’s you quickly spot a reversal (which is likely to be just a swing).

Look at the chart above. In the downtrend you see there you'll notice that the green line crossed over the yellow line even though when you look at the candles you see what appears to be just a minor hesitation in the market. You watch these lines because it'll quickly show you even small retracements (such as a Fibonacci swing) or, as in the case above, consolidations. How you use this information is you would tighten your stops, or at least start paying more attention, if you are in what could be considered a smaller trade. I also like watching for such signals when I'm employing Fib trading tactics and am waiting for a limit exit order to happen to see whether it is likely to be reached. This can also be used for a wide number of other reasons depending on what trading techniques you are using (i.e. if doing a huge Channel Surf Zone using it to gage whether it'll cross the blue line), just use your imagination to think of ways this can be useful to you.

It is also an important observation that the above-mentioned works best in situations when the market has been trending for a while, and not after a relatively strong burst in the market. Take a look at the following chart (USD/JPY) and you'll see that it nicely displays the green/yellow cross over (while the chart appears to be still climbing) in the larger uptrend near the right side of the chart. Near the middle of the chart where you see a big bounce you'll notice that following those huge candles (probably resulting from some FA) the S.E.X. pair crossed a little bit later, but it was still relatively easy to read the crossover before the market retraced too far down.



On the following chart of USD/CAD notice how you could have drawn a nice trendline across the tops, and using Fibonacci methods you could have traded these. One method of trading Fibs is to just enter at the 62%, but as you already know I like to jump in on “Surfs” after it has shown to be moving back in the favorable direction... and looking at the “bunching” then gives me a nice indicator as to when to be hunting for the right opportunities.



Did you notice that the above charts were of JPY and CAD rather than the EUR & GBP I've been showing before? Well this is to show that these S.E.X. lines work rather nicely on all currency pairs on the 8-Hour Charts. I'm pointing this out because in the section where I talked about the daily charts I mentioned that it appeared to work best on EUR & GBP, but I want to make sure that you know that that statement doesn't apply here.

Now what about even smaller charts? A simple way to get more details in your candle views but to maintain the same (relatively) S.E.X. lines is to just "mirror" by multiplying your periods by the factor of the smaller chart (as I explained how to do earlier). To "mirror" your 8-Hour chart S.E.X. lines on a 4-Hour chart you simply double the periods, thus your new lines would become 30/60/120.

Here is an interesting observation I made one day when I was feeling lazy and didn't feel like changing my S.E.X. lines manually. What I did is I had an 8-

Hour chart displaying my lines at 15/30/60 and then I simply changed the timeframe of my charts to 4-Hour, and the lines remained at 15/30/60. Take a look at the following two charts (one is 8-Hour over 40 days and the second is 4-Hour also over 40 days with the same line periods).





First of all, the periods no longer conform to the calendar time frames I've reasoned out before (actually they still do, but at a 50% level), but like I said before, the choice of periods is kind of arbitrary anyways.

What is key to notice is that now you have another perspective to work with. I won't elaborate upon explaining much from these charts (as by now what I would say should be obvious to you) other than to say that obviously these charts now are better used for short term trades going after smaller pip targets (or to search for fine tuned entry points, i.e. for a surf on a much larger scale opportunity).



Look at this one above. This is just a zoomed in look at the last several days seen on the previous two charts (on the right side of the above charts) viewed in a 1-Hour time scale. Again, I remained lazy and just left my S.E.X. periods at 15/30/60. First notice that the gorgeous uptrend seen here now has more visible details, whereas on the previous charts (particularly the larger ones) show very little detail, just a big couple of candles. Now you can see that in that uptrend there were (surfable!) swings that you couldn't see before. More importantly for our discussions of S.E.X. lines notice how you can see awesome bunching, separations, and endings (like elaborated in the section dealing with daily charts). Everything previously mentioned can be applied in this scale for trading purposes, however your trades are obviously going to be for much smaller pips (hey, that's ok because you can trade more lots thus getting comparable profits... remember, small scale trades can be equally lucrative to big scale trades).

Let's take it to the extreme... here is a 5-minute chart showing the peak visible from the previous chart. Again I've use the "lazy" method, having my S.E.X. lines at 15/30/60. Notice the "micro trend" going long and short on both sides of the peak. Also notice that you have further visual clarity of

candle details. This scale is a VERY useful tool to assist you with the techniques learned in “Forex Surfing”.



The following chart is just a zoom in on the whole up-trend that was visible in the above 8 & 4-Hour charts, seen here on the 5-minute chart.



Just looking at that chart don't you feel like grabbing your boogie board & goin' surfing? See how S.E.X. lines can help you to surf better yet?

WRAPPING UP

First of all I can't believe that I wrote over 35 pages (8.5"x11") about S.E.X. lines. In my head it seems like such a simple concept, but trying to explain it, and many of its variations (there is no way I could have completed a complete brain dump on this topic in under 100 pages) makes me realize that there really is a lot to it. It also makes me realize that all my hours upon hours of studying charts has really paid off for me (hence why I strongly encourage you to keep "looking" at them).

FRIENDLY TREND FRACTALS

In the June 2005 issue of “Stocks & Commodities” magazine in an interview about “Following Trends” with Michael W. Covel he stated, “*Historically, trend-followers have made more money off currencies than any other market*”. Obviously this is a good thing for us currency traders.

No matter how you slice ‘n’ dice it trend following systems are the strategies that ultimately work. Whether you are observing and trading along huge trends on the large charts (i.e. daily, weekly, or monthly), or go to midsize trends (i.e. on hourly charts), or go to the opposite end of the spectrum and surf/scalp micro/petit trends, then you are engaging into trend following strategies regardless of the scale. **Essentially all trading relies on trends to some extent** – Fibonacci swings consists of smaller trends (minimum 3 main trends consisting of countless smaller scale trends within those) within a larger trend, range trading is simply trading along smaller trends within the broader sideways trend, pattern breakouts are simply the start of a new trend, moving averages and S.E.X. Lines indicate a trend (in fact all indicators basically do), and I can go on and on pointing out how virtually any technical trading method is simply an advanced adaptation of trend following.

There is a common expression known by traders; “*the trend is your friend... until it bends*”. **If all you were to do was to get good at identifying trends, in any time scale, and know how to trade them then you will inevitably make substantial profits.**

I once came up with a saying (you may quote me) that was for a topic unrelated to trading (so I’ll replace it with “X”) – “*when you understand the basic fundamental principles of how X works then all else are just applications of those basic principles*”. Thus I’ll extrapolate that quote here to be applicable to trading – “when you understand the basic fundamental principles of how the Forex market prices moves then all else are just applications of those basic principles”. Prices of course move based on market sentiment resulting from news and world influences, but as technical analysts we are generally not concerned with that perspective (fundamental analysis). **The basic fundamental principle** (meaning “basic principle”, not to be confused with the financial definition of “fundamental”) **of how the markets move, from a technical perspective, is that the market moves in an oscillating fashion (bouncing in waves) while gravitating in a certain direction (up, down, or sideways). ALL trading methodologies are simply applications aimed to capitalize on the understanding of that above stated fundamental principle.**

Simply put, trendlines show the confined range of oscillation as the markets

gravitate towards a particular direction. When the trendline breaks it is a chance to reevaluate the direction of the oscillations.

This oscillation is apparent in ALL scales of chart perspectives. I imagine the behavior of charts to be similar to fractals in that the same patterns are repeated within the various size scales. Because of this it is important to keep the perspective that within larger trends there are smaller trends, within those smaller trends are even smaller ones, and within those are even smaller ones, etc... There are trends within trends within trends. Essentially the oscillations within a trend are in and of themselves smaller trends that are comprised of oscillations that are even tinier trends. Really understanding this isn't just some nice theory but rather is very practical when you know how to apply this knowledge.

In earlier eBooks I stressed the importance of looking at the “bigger perspective” and then narrowing your vision inwards by first looking at the bigger charts then progressively looking at smaller charts. Here I will elaborate upon the reasoning for this.

As with any spectrum, there are two extremes to the technical analysis of the Forex markets. On one end you have tick charts, or the more practical one-minute charts, as used by “scalpers”. On the other practical extreme you have Monthly charts (each candle represents one month of trading activity), as might be used by “position traders”. Despite the apparent difference these two extremes are still showing you the same thing – historical market price data presented visually, just zoomed in or out in perspective (think of fractals again). Realize that even the Monthly candles developed second by second just as the tiny one-minute and even the tick candles did.

The oscillations seem most chaotic when viewed on the tick candle charts; mindlessly bouncing up & down, but even these tiniest of oscillations, though it may not be apparent while watching them, are still gravitating towards the oscillations of progressively larger oscillation/trends all the way up to the grand scheme of things as seen on the Monthly charts. Thus even the tiniest tick movement is contributing to the fulfillment of the big picture. A single tick movement might seem as insignificant as a tiny atom, but remember that your body is entirely comprised of a bunch of insignificant atoms, just as a single Monthly candle is comprised of countless insignificant ticks. On the molecular level things may appear purely chaotic, but there is an order to things as the cumulatively order themselves as they form a baby from a single cell into a full human being – just as tick movements build the full grown Monthly candles.

Ok, perhaps I delved too deep into this abstract topic, so let me back up a bit and bring it into a more pragmatic perspective.

In that previous paragraph I stated that the tiniest end of the candle spectrum is working to build the larger end. Thus if we observe the “big picture” we can anticipate what the “small picture” is likely to do to fulfill the expected patterns within the big picture. This is why we first look at the big picture charts then work our way downward to finer and finer charts.

I am not going to do an in-depth review of how to find your trendlines here in this eBook as this topic was adequately covered in the prerequisite eBooks that you should have read by now. What is important to keep in mind is identifying trendline breaks and trend reversal patterns as was also discussed in those eBooks, as these are crucial to your success.

So to begin what you do is you look at the Monthly charts and identify your trends.



Just looking at this Monthly chart you should see the beautiful (long term) trading opportunities that were available. Notice how this chart looks just like the smaller scale charts I’ve been showing you in my previous eBooks – had I not told you the scale you wouldn’t know whether these are Monthly, Daily, Hourly or even 5 Minute charts as the behavior of the markets in all time scales is basically the same (think of fractals).

On the above chart I only drew the trendlines for the most prominent trends. Look at that large up trend on the right half of the above chart. Notice

that there were a series of waves (Fibonacci) – each of those waves consisted of a smaller up trend and a down trend; a big oscillation that continued gravitating in the direction of the trend. I didn't draw the trend lines on the above chart showing these smaller trends, but you can imagine them.

At this scale it is important to watch for trends, trend breaks, and trend reversal patterns for two reasons. (1) Knowing the predominant direction of the gravitational force will have an effect on the smaller scale charts you will usually be trading on. (2) You won't likely be trading on this scale, but if you have the patience then why not let a trade run for years (enter by using a smaller trade to get onto the larger direction, kind of like a "Running Scalp" that will be discussed later in this eBook). At the very least you might let a trade run for a few months if you have a strong trend.

Remember, major trendline breaks on a Monthly chart is a significant event that doesn't happen all that often (actually quite rare), so try to take advantage of it when it does happen.



The above chart is a Weekly chart of EUR/USD. The previous Monthly chart showed about 7 years of candles, whereas this Weekly chart shows about 2 years – zoomed to give you a clearer picture. I just drew the most significant trendlines on this chart so as not to clutter the chart with too many lines.

As you can more clearly see on this Weekly chart, the oscillations on the Monthly chart are gorgeous tradable trends themselves. Notice the interesting consolidation pattern in the middle of the chart – tradable for range trading, but also a breakout pattern for the following trend.

As with trendline breaks on Monthly charts, Weekly chart trend reversals are still infrequent but do happen much more often. Definitely try to apply the “Sailing” techniques to jump into a trade at the confirmed breakouts on the Weekly charts. Accomplished successfully your trade can sail along for weeks gathering for you those desired pips.

I recommend that every weekend you review the Monthly and Weekly charts of the currency pairs you like to trade. The weekend is a good time to do your “big picture” analysis since you can’t be doing any trading then, and it is important to be aware of these perspective to watch for trading opportunities as they happen (i.e. trend reversals or Fibonacci swings). Obviously the conditions of those charts will gradually change, but very slowly.



This is the Daily charts over a period of about 15 months. As you can see from the mess of lines (not all relevant lines are drawn) there are plenty of trends that happen, providing you with more frequent trading opportunities. Notice that the consolidation pattern we looked at on the previous chart, now on the left side of this chart, shows more obvious tradable trends on this scale (but would be further clarified on Hourly charts).



Here is the Hourly chart showing the past 30 days. Obviously there are many trends that happen (again, not all trendlines were drawn), all of which can be effectively traded. This is the “bread & butter” trading opportunities for you, meaning that these will provide you with plentiful opportunities to make some nice profits.

Obviously you see plenty of waves, oscillations along the trends, and these are what I call “Micro Trends” (as discussed in “Forex Surfing”). Feel free to trade the micro trends on say the 5 Minute charts in much the same way you would trade the larger trends.

So far in this section I discussed the Monthly, Weekly, Daily, and Hourly charts. Feel free to also delve into incremental timeframes such as the 8 Hour charts, the 2 Hour charts, the 15 Minute charts, or whatever scale you find most appropriate to work from (based on the nature of the trend you are observing).

“The trend is your friend until it bends”. Watch for trend reversals and establishments of new trends on all timeframes, then trade those new trends. This above all else is the key to success as a trader.

Remember, when you are watching an established trend on some scale and you see the market approaching the trend line then watch for a trendline bounce. That sentence is what most teachers will tell you, but I’m going to go a step further for you. When you see a trendline bounce then zoom into a smaller scale chart to more clearly see the smaller trends. Near the trendline (from the bigger charts) you’ll see some kind of a reversal pattern (trendline break, Head & Shoulders, double/triple top/bottom, consolidation(doji),

whatever). Enter a trade as would be appropriate for the smaller scale that you are viewing, but then let the trade run as appropriate for the larger scale perspective. This is a secret for entering a big trade with a small trade.

“*Think globally, act locally*” is a saying I introduced to you in “Forex Scalping”. When trading along a trend realize that it is likely just part of a larger wave (Fibonacci) on a larger scale chart. Zoom upwards to view the major trend of which the current trend you are trading is just an oscillation of the larger trend. It is important to look at the larger charts to see likely reversal points for the trend you are trading – Is it approaching the larger trendline? Is there a Fibonacci retracement level coming up? Is there some other convergence or Gartley to be aware of? Bottom line is that the larger chart can show you potential reversal areas so that you can exit your trade, enter into a new trade, or replace your stop appropriately. So think globally by looking at the bigger picture, then act accordingly in the local scale within which you are trading.

The whole concept of this eBook is to teach you to “Sail”. Imagine that you are in a sailboat leisurely cruising along for days, weeks or even months, trending along in the ocean in the direction the winds blow. Keep this image in mind as your trade (your sailboat) sails off into the distance as it follows the trend of the prevailing market forces (winds).

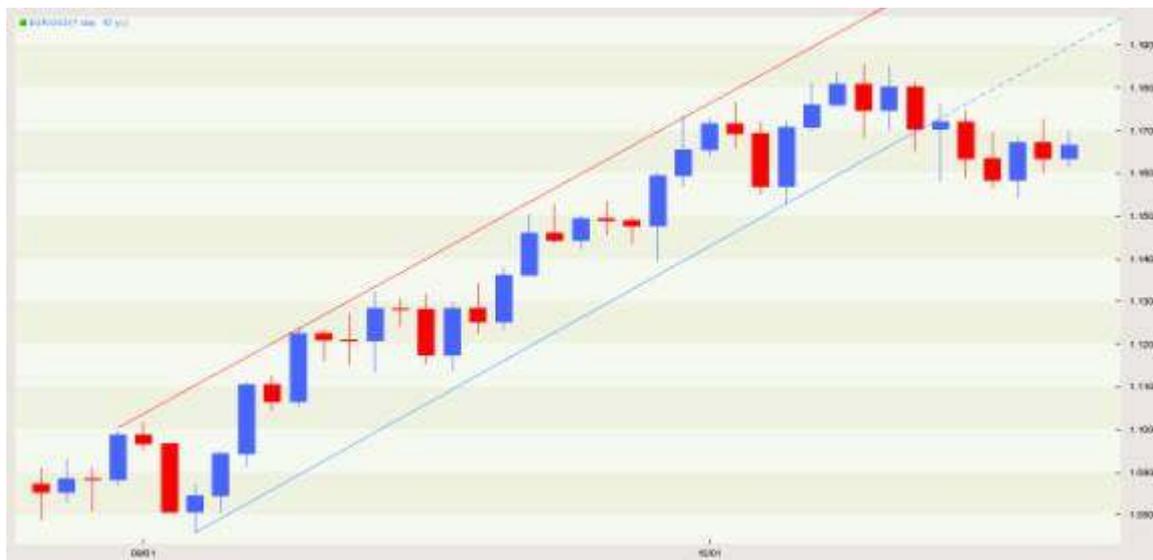
TREND CHANNELS

By now you are quite well aware of the value of trends and trendlines. Mostly you are aware of the predominant supporting trendline, but there is also often a resisting trendline as well. In this section we will discuss this other trendline.

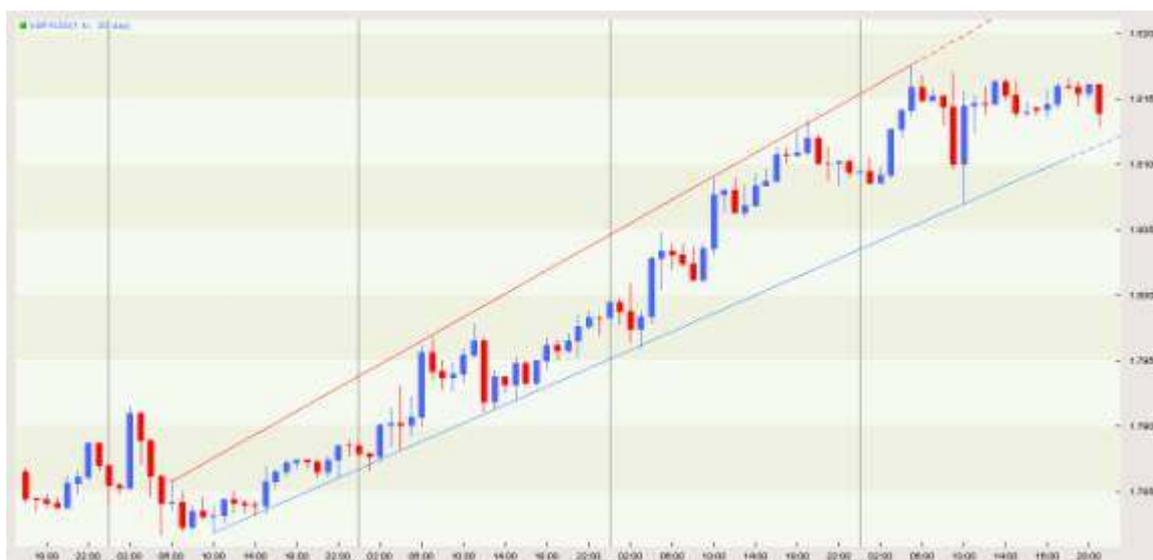
First of all I should clarify the meaning of “support” and “resistance”. Generally speaking, “support” is a price level, as might be considered by a trendline, that *supports* the market. Think of it as a floor that the market can bounce UP from. Conversely, “resistance” is a price level that pushed the market back down. Think of it as a ceiling that the market gets restricted by and bounces DOWN from. In the next section I discuss the topic of previous support & resistance, which is a different topic than what I will talk about here in this section.

When you see a triangle or a sideways consolidation you’ve been using the concept of drawing trendlines to show probable areas of both support and

resistance. As the market moved upwards through the range it bounced off your ceiling of resistance; where you drew your top trendline. As the market moved downwards through the range it bounced off your floor of support; where you drew your bottom trendline. Thus you are already familiar with the idea of trend channels; you have two trendlines that offer support and resistance as the market trades through the range between the two lines.



The above example shows a trend channel. Notice how the trend remained constricted within the channel as it bounced the bottom support (blue line) and the top resistance (red line).



Here is another example, this one where the channel got wider. Remember that once you have three connecting points it is amazing how often the market will continue with that trendline.

Sometimes you'll see textbook perfect examples on your charts of trend channels, and sometime you'll have to be a little looser in your interpretations of where your lines are (sometime the lines line up perfectly, sometime "*more or less*").

Ok, so how do you use these opposing trendlines?

Well if you are trading THAT trend then you simply ignore the opposing line, trailing your stops, and ride the trend for as long as it lasts.

If you are trading a smaller (fractal) trend on a smaller scale chart but see that the market is approaching the opposing trendline of a larger trend on a larger scale chart then now you have a "*reason*" to assume that around there the smaller trend you are trading within is likely to end, so watch for reversal signals to exit your trade and start aggressively trailing your stop or "scalp" an exit near the top.

CURVED TREND ENDS

As a trend starts to end it doesn't always end with an abrupt reversal. As the market approaches the sentiment value of the currency pair then you'll see a slow down of the trend which often leads to a consolidation (especially seen on the smaller chart scales).

Often this forms what people consider to be rounded tops/bottoms, teacup / bowls, and related rounded reversal / continuation patterns. I didn't previously discuss teacups or bowls (different people call them differently) simply because I don't see them often enough to consider it a significant pattern (however I do see them often on 1 minute charts when scalping). Because these patterns aren't that significant for "Sailing" I won't elaborate upon them here.



Notice how the pitch of the trends changed creating a rounded bowl effect?

What is relevant is to notice that often your trend will slow down as it loses steam (obviously) and this often results in a trendline break simply because the market is moving more or less sideways.

Side note: Here I will express a personal wish of mine; maybe one of you reading this can “invent” this. It would be great if there existed a parabolic trendline. Being able to manipulate the end points, as with a normal line, to set the start and end, but also being able to manipulate a mid point to establish a parabolic curve (kind of like how a vector graphic program such as Corel Draw allows you to draw such lines). Then a dotted line continues the extrapolated path, just as with a regular trendline. If you know how to write a computer program that can plug into charts to do what I just described then please do so (I’d call you to discuss this in more detail) as you would certainly be recognized as a genius, and your tool (which you could name after yourself) I’m sure would get integrated on many charting software

packages. If a tool such as this already exists and I'm just unaware of it then please, somebody let me know!

When you see something like this it can mean that the market is just pausing (a stagnation) and the market may later pick up steam to resume the trend. Alternately it can end up being a reversal. Either way simply tighten up your trailing stops to protect much of the profits you have already captured. You'll either get stopped out from the reversal, or you might get lucky staying in as the market resumes moving in that same direction.

PREVIOUS SUPPORT / RESISTANCE

I explained the definition of "Support & Resistance" earlier, so I assume you understand what I mean.

It is astounding how previous levels of support and resistance can provide continued support & resistance in the future, or conversely, how previous support may later act as resistance & vice versa. Being aware of these tendencies can give you "*reasons*" to be aware of potential reversal points, with obvious application to your trading.



I've selected this chart shot even though it doesn't show the nicest examples of support turning into resistance (& vice versa) because it shows a couple of these examples on one chart and a convergence. Notice that the green line very nicely supports 5 times before that trend was broke and a new down trend go established. Notice that the market hesitated right where it broke out (brief consolidated stagnation) as it wondered whether to bounce or to

breakout. That showed that the trend tried to hold the support, but the market broke through that support. Then that support line acted as resistance twice; an example of how a previous support line often acts as a swing resistance in a trend reversal. Notice also that the second time it bounced that original green line that it ALSO bounced the new downwards resisting trendline (blue line). This is an example of convergence of multiple technical analysis “reasons”. Later after the market broke out of that second trend (notice the “diamond reversal” at the bottom – explained later in this eBook) the blue resistance line offered some support.



Here you see a trending channel where the market sneaks over to the other side of the resisting trendline where it then treats it as support. You’ll frequently see something like this where the market actually continues the trend direction for a while, only hugging the trendline from the other side.



This chart shows numerous examples of horizontal support & resistance from previous significant highs & lows. Notice that the green horizontal line was an area of resistance for a number of those tops, which later became the resistance after the shooting price reached it and formed a consolidation. The blue horizontal line started as resistance from that first high touching it, then became support for a while near the top of the chart, and later became resistance again as that rogue spike hit it. The red horizontal line acted as resistance to the Double Top formation (reversal pattern). Also note that on larger scale charts that Double Top would look like a Tweezer Top (which is ultimately the same thing). Notice I also drew the Fibonacci lines (black solid & dotted lines). Notice that the 62% is approximately at the green horizontal line. This would lead me to speculate that the market will continue down to about that level where it will likely reverse (there are even more “reasons”, but I won’t cover them all here). Notice also where the market is – I’ve just made a prediction that hasn’t yet been fulfilled (so you don’t think that I only see these things after they happen).

Ok, so now you know how to find levels of potential support and resistance. So what? Well the reason you look for them is so that you can find potential “reasons” for the market to reverse around certain key areas. Armed with this foresight you can anticipate where trends are likely to end and new trends are likely to begin.

FYI – Some people call these things “pullbacks” or “throwbacks” when the market meets the previous resistance/support line from the other side of the line. More specifically a “pullback” is when it comes close to or just meets the line, and a “throwback” is when it minorly penetrated the line. The above examples showed both kinds of events but I didn’t label them as such. I’m just telling you this incase you encounter people who fling around those words just so you understand what is meant by them.

EXTRAPOLATED LINES

This is a technique that I have played around with but honestly don’t find that the use of this is by any means “Earth shattering”; not highly effective. The reason why I’m sharing this with you is because it is an extension of the above-mentioned concepts, and it can provide, somewhat roughly, a projected resistance / support.



Ok, on this chart you see drawn the resisting trendline with some pullbacks and throwbacks. This is not what I'm trying to show you. Notice the other lines. Basically I connected the supporting & resisting trendlines on those minor trends within that larger trend. I've also connected a wave low to a wave high which isn't a standard way to draw a trend, but works for this. Of course you can get many lines at different angles if you connect different points, however drawing the minor trendlines tend to have a similar angle.

Notice that these lines together projected a range of resistance, which that big wave ended up getting resisted by.

I speculate (meaning I don't really know, but am just offering my hypothesis) that part of the reason this sort of works is because it is a projection of Fibonacci related extensions, considering you are drawing a trendline along waves. Part of the reason for the inaccuracy, I think, is because a tiny angle of variance gets magnified over distance (i.e. if you were to shoot a gun at a target 100 yard away, then were to move the front of the gun by only one millimeter then that change in angle could make the second bullet be off the mark by a considerable amount).

When do you use this? You don't arbitrarily go connecting all the minor trends all the time. When you see the market making a significant trending movement then you whip out this tool from your trading toolbox to get a sense for the potential resistance/support area.

How do you use this? Well you simply use this as a minor "reason" for anticipating areas of potential support & resistance.

DIAMONDS & TRIANGLES

By now you are aware of a handful of patterns that you'll see form in the market. It is not my intention to provide a complete review of all patterns, but rather to just touch upon the topics of triangles with the perspective of "Sailing" in mind. This is more to introduce "Diamonds".



Triangles can happen in virtually any scale, however you see them more frequently in the smaller time scales. When you see a triangle you can certainly trade the eventual breakout, but if the triangle is large enough then feel free to range trade within it (if you recognize it soon enough) on smaller charts (by going to the smaller trends more clearly seen on those smaller chart scales).

Tip: I find, from my own observations, that GBP/USD often makes nice triangles, more so it seems than other pairs.

How do you find a triangle early in formation? Look for an "In-Wave Bi-Directional" situation (as first shown in "Forex Scalping"). As the triangle keeps forming you'll find that it "retraces" according to typical Fibonacci theory; the 79% seems to be very common for triangles, but can also happen with the 62%.



What you've just seen on those two charts is a "Diamond" formation, which is typically a reversal pattern (though I have seen them as continuations). Typically they have a sharp up then a sharp down to and from the Diamond.

I typically think of Diamonds as really a consolidation that had a pronounced Bull/Bear trap. (I also think of them to be similar to an island reversal that would be possible for trading commodities, but you won't normally see a true island in Forex.) Anyhow, if you look at it, it appears like two triangles back to back. A backwards one at the start that gets progressively wider, then a

regular triangle that gets tighter. When you see an occasional Diamond then trade it as you typically would trade a triangle. Remember that often it'll be a reversal, so you can anticipate that likely possibility.

What about other patterns? I don't want to get onto the subject of reviewing all the common patterns here in this eBook. I think it is sufficient to say that you should by now (having read the other eBooks) understand some of the most common patterns. Basically the rule of thumb is to be aware of them and to engage in a "Sailing" style of trade once you see a familiar pattern.

CANDLESTICKS

The ability to read candlesticks is a very useful skill for the analysis of Forex markets. It is worthwhile learning the significance of candlestick formations and to apply that knowledge to your trading.

Years ago I spent some months learning wilderness survival skills, which heavily consisted of tracking and nature observation (it's a hobby/interest of mine; I'm actually a city boy). It is amazing what you can learn about an animal, or a person, by analyzing their tracks (foot prints). Other than some obvious facts (such as sex, size, weight, direction) you can also learn some intimate details about the one being tracked (i.e. psychological). The science & art of tracking isn't just about being able to follow, which is the more basic aspect of tracking, but more importantly it is about anticipating where the prey is going.

Candlesticks are footprints in time showing where the market has been and can indicate the psychology of the market. Knowing how to read the candles can help you to "track" the prey of the market, anticipate its' intentions of how it will behave, and ultimately where it will go.

It is not my intention to give a full explanation of the use of Candlesticks for trading the Forex markets (I am contemplating writing an eBook about this subject for later). You will find a useful introduction about this subject in the "Forex Classics" eBook. The purpose of discussing candlesticks here is to ensure you are impressed with the intention to use them in conjunction with "Sailing" techniques, but also to briefly introduce you to some "fractal" perspectives.

Steve Nison has done a super job of introducing this skill to us western

traders; he has made a significant contribution to the world of trading. Definitely take the time to read his books some day.

Candlesticks has been taught in many books, mostly about stocks & commodities, however I'll stand on a soapbox and proclaim that what they teach is not entirely applicable to Forex trading. I am surprised to find "Forex" books teaching basically a parroted version of what is frequently taught in stocks & commodities books; it seems like they "copied & pasted" the information without much thought on the topic. Simply put, **much of what is written about this subject is wrong for Forex traders!!!**

There are two reasons what they teach you is wrong.

Reason #1 – Typically the diagrams shown are of "daily candles". Because the stocks and commodities markets open and close each day there are often price gaps between the close price of one candle and the open price of the next candle. Thus many diagrams of those books show disjointed candle bodies. The Forex market, however, is a 24 hour market thus the open price of a Daily candle typically matches (usually exactly or within a couple of pips) the close price of the previous day's candle. The only exception to this is the weekend, so a Monday candle may open with a price different from Friday's candle. In some charting packages, for smaller candle scales (i.e. 5 minute or 1 minute candles) you'll see these close/open price gaps, but in other charting packages you'll see that there is no gap (depending upon how the charting package deals with last ticks before close and first tick after open). The bottom line is that you'll never (or extremely rarely) see candlestick formations as illustrated in those books. I'm surprised that some "Forex" books even show this rather inaccurate information (I won't mention any titles of books because I don't want any law suits for saying something bad about them).

Reason #2 – The psychological implications and "meanings" of various candlestick patters are inaccurate for the "Forex" market. Stocks and commodities are essentially a one-directional market – if prices go up then things are considered to be good, but if prices go down then things are considered to be bad. Candlestick patterns have definitions based upon optimism / pessimism of a particular stock or commodity showing the prevailing fear / greed of market sentiment. The Forex market, however, is a bi-directional market. Essentially you can either trade up or down without it having any particular significance to you (unlike a stock that if it goes down to zero you'll panic because now your stock is worthless). What I'm getting at is that the implied significance of some candlestick patterns (as taught for stocks

or commodities) is a little bit wrong for the Forex market (however many other patterns are still right).

Even though there are these above stated inaccuracies you can still benefit from reading those stocks & commodities books (even those “Forex” books). Just keep the above points in mind to help you to modify what you learn about candlesticks from those books so that they can be applied to Forex trading. I think that one day I’ll write my own version of candlesticks for Forex (please don’t hound me for this; I’ll get around to it when I can).

As I just stated, use the candlestick techniques you can learn from “Forex Classics” or other books (just modify them). Later you’ll get my version of how to use candlesticks for Forex. The rest of this section I just want to bring your attention to a couple of topics related to candlesticks, and to give you a different perspective on them. I won’t review the definitions of the candles discussed here because you should have read about them by now in “Forex Classics”.

If you see a “doji” candle, or a very small candle, particular with short wicks (best), on your Daily charts, or even Weekly charts, then if you zoom into smaller scales you’ll often notice that this “doji” is a consolidation pattern. When the consolidation pattern breaks out, and if it is a market reversal, then it will typically form a “morning/evening star” formation. When most people are just getting excited over seeing a “morning/evening star” formation you can be already on board on the trade because you recognized a breakout pattern earlier than they did (Imagine that! You can get in at just about the start of the trend – most people would envy you). There is also a technique called “Teeny Netless Candles” taught later in this eBook to help you with these types of situations.

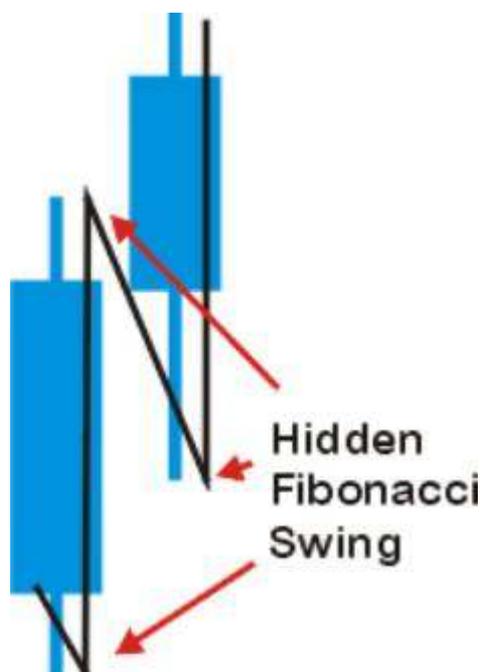
When you see a “tweezer top/bottom” formation realize that this is usually a “double top/bottom” trend reversal pattern if you zoom your perspective into smaller chart timescales. That is why they usually signal a reversal (there are additional reasons, but we’ll discuss those in my candlestick eBook).

Of course there are many other candlestick formations, but those are the only ones that I really wanted to bring your attention to in this eBook because they are “money makers”. Watch for them on the larger charts then zoom into smaller charts to find the opportunity they signal to you.

Fibonacci swings are one of my favorite techniques (as you probably realize by now having read my eBooks). I tried explaining to you a bit about spotting

hidden Fibonacci swings in my eBook “Forex Surfing”, but I’ll touch upon this again to clarify this point for you.

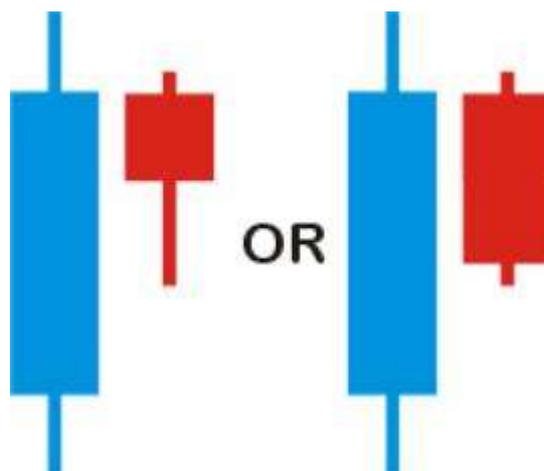
Contained within candles are hidden Fibonacci swings. Here is how to spot them when they occur so that you can potentially benefit from them. Take a look at the following diagram.



The candles on the chart represent... well candles of course. The black line represents a simplification of the typical price movement. The black line is staggered from the candles just so that you can more clearly see each.

Basically the price moved up from the low, reached the high of the first candle (swing), then went down to the low of the second candle (retracement), and then went up to the high of the second candle (extension). If you were to zoom into a smaller scale chart you would typically see this Fibonacci swing clearly.

So let’s say you see something like this on your bigger scale charts. The second candles are “still in formation” (not completed yet):



Could you potentially be seeing a Fibonacci swing before it is fulfilled? Well maybe (no guarantees), but it might be worth looking into. Zoom into a smaller scale chart to see what it looks like, and of course look at the bigger scale charts to see resistance/support levels.

Remember that all the details visible in smaller charts are summarized in a single candle, or just a few candles, on the bigger charts. Knowing this you can look at the bigger candles (and candle patterns) to recognize potential trading opportunities that are better perceived on the smaller charts. Keep the idea in mind that candles are footprints of the market; learn to track and stock this prey.

SAILING TECHNIQUES

In this major section of the eBook I will be giving you some specific “opportunities” and the specific techniques to trade those opportunities, as you are used to from the way I presented similar ideas to you in my previous eBooks. However later in this section I start moving from “specific” techniques towards broader concepts of techniques due to the nature of the “Sailing” style of trading.

The general concept of “Sailing” is to enter a trade, entering by any of many methods, with the intention of letting your trade travel a significant distance (hence the concept of “Sailing”). Again, I have provided you with some “specific” methodologies, but due to the nature of “Sailing” it would be virtually impossible to cover all the “specifics” and contingencies (this eBook is so far the largest eBook of all my eBooks), so I teach you the “concepts” so that you will understand how to use the specific techniques you have learned

in the other eBooks to accomplish the objective of “Sailing”. Be aware that what I have already shared with you thus far in this eBook isn’t just some interesting concepts but rather are the individual elements of the whole Sailing methodology. I believe that this method of teaching you how to sail is the best way so that you understand how to incorporate virtually any trading technique into a Sailing approach.

As I’ve stated in the introduction and at other places within this eBook, this material is somewhat holographic, rather than being presented in a completely linear fashion (which is I think is virtually impossible to do). What this means to you is that the concepts taught individually at various places within this eBook are later meant to be fused together into a broader understanding. To help you understand what I mean think of this as baking a cake. You go to various stores to pick up the individual ingredients (all the pieces I teach you) that is later intended to all get mixed together in a big bowl (your mind) so that after it gets baked (you thinking about stuff) you have a cake which is drastically different and more valuable than the individual ingredients that went into it. I can’t give you the cake (the wisdom) but I can give you the ingredients (the knowledge) and instruct you on how to bake the cake in your own mind. Don’t worry, the result of you reading this eBook isn’t like those TV commercials where they showed an egg then an egg scrambled on a frying pan (“*this is your brain; this is your brain on drugs*”). I hope that this eBook achieves the goal of getting you to understand a lot of this stuff “holographically”.

LOOKING FOR REASONS

When I study my charts I look for what I call “Reasons”. What I mean by this is that I look for, through the eyes of technical analysis (but also look at an FA calendar), any “reasons” I can find for the market to behave in some predictable manner. The concept of “looking for reasons” can be applied to any style of trading (If I’m scalping I look for “reasons” that lead to a potentially good scalp trade. If I’m sailing I look for “reasons” that lead to a potentially good sail trade.).

So when I do my analysis of the markets I look for ANY pattern I can identify (i.e. trends, Fibonacci, candle patterns, indicators, consolidations, reversals, Elliot waves, pivots, MA crosses, key support/resistance levels, anything). I look on both higher and lower scale charts to see the view from different perspectives. Generally speaking, there is never just ONE “reason”, but rather an interweaving array of multiple “reasons”. Often you’ll have conflicting

“reasons”, suggesting different expected behavior, but usually most “reasons” will converge (more or less) to indicate a strong possibility.

For example, if you see a sideways moving consolidation then that may seem like reason enough for you to trade. Of course it is. But here is an example of looking for multiple “reasons”. What if that consolidation you see was the apex of a Fibonacci extension, that is actually right at the 62% retracement of an even larger swing, which is touching a trendline on an even larger scale trend, your S.E.X. lines are bunched, your consolidation appears to be a morning star candlestick formation, and your psychic hunch is that the market is about to move. You don’t always get so many perfect scenarios all at once, but you get what I mean by looking for multiple “reasons” that suggest some interesting possibilities. **The moral of this story is that if you see something (i.e. the consolidation) then if you widen your vision you’ll often find supporting “reasons”.**

Remember the story I shared in “Forex Scalping” (near the end of the eBook) about the guy that was shocked when I accurately predicted the time of a triangle breakout? Well I didn’t tell you the whole story; I also accurately predicted the direction of the breakout. I don’t remember what the supporting “reasons” were anymore, but as I told you the guy thought I was psychic or something – but as you now understand I just looked for “reasons” to make an educated guess (ya know, I’m wrong sometimes).

Ok, so what is the point of all this? The reasoning behind the concept of “reasons” is to reason out “reasons” for the reason why to make a trade (intentionally convoluted sentence - joke). If that was as clear as mud then let me restate that for you. The purpose behind the concept of “reasons” is to identify the probable scenarios of market behavior so that you can place an appropriate trade based on the anticipated behavior. In simpler terms just look for good trading opportunities.

All of the trading techniques presented below rely on “good reasons”. For example, one of the techniques you will soon learn about involves placing entry orders straddling a candle. Just arbitrarily doing this at any time is stupid; **you would only place such a trade when there are supporting reasons that lead you to believe that engaging into this type of trade is appropriate based upon current market conditions.** *(side note: Many people contacted me about “Forex Surfing” with a common misunderstanding – you don’t arbitrarily surf any wave you happen to see; only when the market is microtrending as I explained in that eBook. If you are one of those people who have this misunderstanding then please reread “Forex Surfing” and be*

sure you understand the conditions for when such a trade is meant to be applied.) Pretend you are a handy man, or a carpenter of some sort. You don't walk around with a screwdriver & screws and just start screwing things arbitrarily; you pull out this tool at the appropriate time when you have something that needs to be screwed (say you have furniture to assemble).

Furthermore, when you have a task that requires a screwdriver then that is when you use it. Later when you have another task you make a judgment about which tool to use based on your requirements (your reasons), and so this time you don't reach for your screwdriver but you grab your hammer and a nail because it is the better tool for this specific job (even though a screw might have also worked you figure the nail is the better choice for whatever reason). The point of this, similar to the previous paragraph, is that you may have several trading techniques (tools) that could work for you (even slight variations in methodologies) but based on your "reasons" you might find one method to be potentially more advantageous, and so that is the tool you use. Pick the right trading method based upon the specific variables of your potential trade. "Pick the right tool for the job"

Near the end of this eBook I discuss the concept of having a "Holographic Mindset" for trading, which is related to the concept of "looking for reasons" (how's that for a non-linear correlation to content within this eBook). Your job as a trader is to scan through your charts looking for opportunities to trade, supported by "reasons" (the more concurring reasons the better) why the proposed trade should have a high probability of success.

NETLESS STRADDLE TRADING

A while ago I had a week FILLED with epiphanies pertaining to trading techniques. It started off with a trade that lost over 100 pips. Rather than just accepting my loss I studied it in depth. To make what really is an interesting story short (though it is a cool story I don't think it'll significantly add much to you, and I don't feel like writing pages of text recounting it all) I'll simply say that I went on a mental adventure by discussing that trade with several people, clarified my thoughts with a couple pitchers of beer, and pondered at depth the significance of what I learned from that ONE losing trade. Folks, I can't stress it enough to you how beneficial it is to keep your head in charts and ponder trading because that is how you come up with some truly clever ideas for your trading (how do you think I came up with most of the stuff I talk about?). This is especially true after losing trades – "there is no such thing as a failure (or a loss) if you've learned something from it" (that week I

sure got my money's worth – use this philosophy when you experience a significant loss too, that's why I'm telling you about all this fluff stuff). This chapter will elaborate upon just one of the many concepts that I came up with that week. The concept isn't unique I'm sure (actually it is not unique, but nobody told me about it – some of you “expert” traders will likely think nothing of it), but I've never been taught or heard about it, and so chances are that this will be a new idea for you too.

I had a beer with a friend arguing over the stupidity of trading without a stop loss set for ALL trades. He was making arguments that supported trading without stops (in my opinion they were invalid) while I kept pointing out the folly of that idea. Several hours later I realized that trading without stops (since he got me thinking about the subject) could in fact be a solution to one of the trading problems I had been pondering about how to solve for some time. I immediately back tested the idea, tried it live successfully, and have now added it as a part of my trading toolbox. I call this technique the “Netless Straddle” Technique and yes it involves trading without a stop loss! Yeah I know I keep shouting loudly to *never* trade without a stop, but as the cliché goes, “never say never”, because now I'll have to eat my own words and say that there is one logical technique for trading without a stop loss set... and here it is.

This idea has progressed through several evolutions (getting better each time), and has spawned several variations, which you'll learn shortly.

“Netless Straddle Trading” isn't really a trading “Opportunity” but rather is a trading tool to be used in conjunction with certain types of “Opportunities”. I've put this here, before dealing with the “Opportunities” presented in this eBook because this concept will be useful for a couple of situations that will soon be explained.

REGULAR STRADDLES

There are a number of variations of how traders use a common technique known as “straddle trading”, but here is a common scenario. Let's say you have found a sideways moving consolidation (a.k.a. sideways channel). You have learned from me that the best way to trade a consolidation is to jump on a surfable wave after it breaks out of the channel, but sometimes you can't sit around your computer waiting for that to happen so you use a traditional straddle. With a traditional straddle you simply place an entry order on both sides of the channel (one to go long at the top of the channel, the other to go

short at the bottom of the channel). Typically your stop loss is set at the opposite side of the channel. What should happen, in theory, is that the price should eventually break out of the channel consolidation (which inevitably it does) and (hopefully) the price should continue trending for a while in that direction.

Using this basic straddle method as described above will often yield you some nice profits, however there is a downside to that technique. Sometimes (often enough to become rather annoying) the price will move up enough through the horizontal channel line to trigger you into a trade, then it either continues to move up but not sufficiently to trigger your limit exit order or it just comes back down immediately back into the range of the consolidation. Then the price continues to move down through the consolidation to the other side of it until it exits your first trade for a loss AND simultaneously enters you into the second trade going in the opposite direction. If it continues trending in this new direction then hopefully you could simply exit the trade when it moves profitably far enough to at least break even with your first trade, or preferably even further so that you at least have some profit at the end of this experience. The real kick in the pants happens when the second trade also turns around, goes through the consolidation channel range and reaches the other side triggering your stop loss. When this happens you become a two-time loser (this is what happened to me in that losing trade I mentioned above).

To help you to understand let's give a numerical example of this. Let's say you have a consolidation of 50 pips (let's use round easy numbers for this example). You find that the top of the channel is at 1.2200 and the bottom is at 1.2150. You then place two entry orders. The first order has an entry of 1.2200 to go long, a stop at 1.2150, and a limit at 1.2250. The second order has an entry of 1.2150 to go short, a stop at 1.2200, and a limit at 1.2100. Then you wait for something to happen. Let's say the price moves up through the channel and hits 1.2200. Your trade is now entered and you have a long position. The price inches up to 1.2240 (oh so very close to your profit limit) but unfortunately turns around and plunges down. Quickly it moves through the channel zone until it arrives at the other side. Simultaneously two things happen (1) your original trade now exits for a 50 pip loss and (2) you are now entered into a new trade going in the other direction. It goes down a bit more until it too turns around racing back upwards. Shortly it crosses over 1.2200 again resulting in your second trade exiting for a loss of 50 pips. So your net result is two losing trades totaling 100 pips lost.

(Note: The above example shows using limit exit orders but many

traders don't use them to allow profits to run. Whether you'd have used them or not in the above example wouldn't affect the end result.)

In all fairness the above worst-case scenario doesn't always happen. Many traders do use straddles profitably (as have I), but what if there was a way to minimize that potential downside described above while simultaneously allowing you to let profits run even further without limits?

THE NETLESS STRADDLE TECHNIQUE

What you do is you place your two entry orders around the channel consolidation **WITHOUT** either stops or limits!

Yes, you did read that statement correctly. Let me explain the benefits (and the downsides) of doing this and you'll soon see how good it really is... and then later I'll give you some specific **AWESOME** trading techniques to apply this concept with.

Let's continue using the above stated numbers for our example. You place two entry orders, one to go long at 1.2200 and the other to go short at 1.2150. You **DO NOT** place any stops, but more importantly **YOU MUST NOT PLACE ANY LIMITS** (it is **ABSOLUTELY CRUCIAL** that you don't use any limit orders as this can burn you bad. This is because if your first trade were to exit for profit by a limit order, then the market reverses, picks up your second trade, then reverses again before it hits your other limit order you can then have unlimited loss potential since you don't have a stop or the other trade to cancel this one. Obviously this would be bad if this rarer scenario would happen while you're sleeping or away from your computer for a long time.).

Let's say that the price moves up (or down), your entry order gets triggered into a trade, and it continues trending in that direction profitably. Obviously this is a good scenario. At this point you would place a protective stop loss order to ensure that you've lock in some profit, letting your trade continue hoping that it continues to run for more profit (appropriately trailing your stop). You would **ALSO** cancel the other entry order that hasn't been triggered (very important).

“What about if the trade goes bad? Shouldn't I have a protective stop loss to prevent unlimited risk?” It is not necessary! If the market were to move sufficiently to trigger you into a trade then turn around to the other side of the

channel picking up the second trade then you have nothing to worry about. When you have two active trades in the same currency pair each going in opposite directions (one long the other short) then they cancel each other out. **Essentially the second trade IS a stop for the first.** At this point no matter what happens it won't cause you to lose any more money (except overnight interest if you leave it open through 5pm EST). Most brokers simply treat a trade (of equal lots for the same currency pair) going in opposite directions as simply a stop that cancels both trades out. Go ahead and try it in a demo account by entering a trade in one direction (since this is not for real money go ahead and make an arbitrary random trade since it doesn't matter if the result is for a profit or loss) then place an equal trade in the opposite direction. For most brokers doing this will result in both trades being canceled, leaving you with a net gain or loss.

Though I don't know of any broker that does keep both trades alive in this situation there might be some that do. If your broker does this then simply put stops/limit orders on both trades set at the same price about 10 pips away from the current market price and sooner or later the market will move to trigger the stop & limit orders to exit from the trade.

In the above stated example that resulted in a double 50 pip loss, totaling 100 pips lost, the result would have been different. In that example you would have only lost 50 pips rather than 100 because once the second trade is triggered it is "game over", locking in the 50 pip loss, and no matter what happens after that you can't lose any more. Once you are in a double trade your broker should just cancel out both trades, or if you have a weird broker then you might have to use a special technique to exit both trades (which was described above).

This "Netless Straddle" method can be used to straddle various types of "opportunities". Generally speaking, whenever you encounter times that the market can move in either direction, and at times you are somewhat uncertain about which direction the market might move then you may use this technique. It can be utilized in any time frame, like trading the day high/low breakouts, consolidation breakouts on your hourly charts, or for those ambiguous "Bi-Directional In-Wave" you might encounter Surfing or Scalping.

Advantages

The advantage of using this method of straddling is that you can place a trade and leave (no baby sitting required) that is open ended for unlimited profits

with only a fixed risk (your risk is only the distance between your two entry orders). Furthermore, your ultimate risk is only half of the ultimate risk of a standard straddle, thus you may engage in a full trade (based on your equity management risk levels) for each trade. For example, if you can normally risk 2% then with a regular straddle you should place each entry order risking only 1% each (both totaling 2%), but with this technique each trade can be for sufficient lots that would amount to 2%, thus your potential wins can be twice as big.

Disadvantages

The disadvantage is that if you experience a fake-out (bull/bear trap) then the market reverses and keeps going through the other breakout price then you might lose the opportunity to be in that successful trade.

Do the “Advantages” outweigh the “Disadvantages”? I think so, but I’ll leave the decision up to you. You’ll find situations when doing this works, and situation when this doesn’t work for you. Ultimately you are cutting your loss in half, or doubling your potential gains, which in my opinion leaves you with a net advantage overall (as not all breakouts result in bull/bear traps).

The bottom line is that I’m not suggesting that you exclusively adopt this method of straddling and divorce the standard straddle technique. I’ve simply presented you with an alternative method to add to your trading toolbox. There are some circumstances when you’ll prefer the “Netless Straddle”, and other times that you’ll prefer to go with the standard straddle. There are a few opportunities in this “Sailing” eBook when the Netless Straddle is specifically appropriate, such as a variation of the “Forex Roulette” trading the high/low breakouts of day candles.

FOREX ROULETTE

The first trading tactic that we’ll look at that is part of the “Sailing” concept is what we’ll call “Forex Roulette”. This concept can be applied from small trades (say 30 or 40 pips) to relatively larger trades (say 100 or 200 pips). In general this type of trade should be limited to a maximum of 300 pips so that it has a chance to be completed within a relatively short time frame (typically a couple of days to less than a week).

Though I usually cringe at the thought of comparing Forex to anything gambling related, sometimes it is easier to do so for conceptual

purposes. Please remember that by following sound trading principles Forex IS NOT gambling, though for some traders (judging by the way that they do trade) the line between gambling and speculation is rather gray. I am using the popular casino game to help describe this trading tactic – I hope you understand. Let's look at the casino game to compare it to Forex for the purpose of learning this technique.

There are many aspects of the game of Roulette, we won't be looking at all it's variables but one in particular – the red/black part of the game. In Roulette you have the option to place a bet on either the red diamond or the black diamond. This only presents a choice between the two options. Once the ball goes around the wheel and lands on some number a color is determined to be the winner; either red or black. Basically, this is a 50/50 game (let's ignore the green 0 and 00 for now). Essentially it's a coin toss, and statistically you'll be right betting on either of the two diamonds (red or black) 50% of the time. In this game if you were to place a \$100 bet on "red" then there is a 50/50 chance of winning or losing. If you were to win then you would win the same amount you risked thus walking away with \$200 (your original \$100 plus the \$100 you won). If you were to lose then you would walk away with nothing (having lost your original \$100). In this game the "risk to reward ration" would be 1:1.

Ok, so now let's look at Forex. As you already know the Forex market can only move in three directions; up, down, and sideways. In reality, if you think about it, a "sideways movement" is really a temporary non-event. It is inevitable that sooner or later it'll end up moving either up or down. The equivalence to this in Roulette is when nothing has yet happened (like the ball is still spinning in the wheel but hasn't yet landed). The solution to a "sideways movement" is to simply wait... sooner or later it WILL go up or down.

So in Forex you see what on the surface now resembles Roulette. Just as in Roulette the ball can land on either red or black, in Forex the market can move either up or down – both on the surface appear to be a 50/50 proposition. With either you could theoretically "play" 100 rounds but in the end come out more or less even (ignoring green 0 & 00, or in Forex the spread).

So how do you turn the "odds" in your favor? By using clever strategies you can put the "odds" onto your side to "win" *consistently*.

In Roulette gamblers have strategies to win, but to make a long story short, the

only sure fire way to win at Roulette is to be the owner of the casino, not the gambler. Ultimately the odds favor the casino over the gambler. Gamblers do have strategies applicable to the red/black aspect of the game but in the end statistically they'll loose. The two most common strategies are to play the opposite colors from the prior winning color, especially after a streak or bunching of the same color (as statistically they should balance out but the "law of independent trials" dictates that each roulette play is completely random and has nothing to do with any previous plays), and the most common "equity management" principle they follow is what is known as the "Martingale System" of doubling up on loosing bets to chase their losses back into gains. Simply put this is a stupid strategy because sooner or later the gambler would face the statistically inevitable event of either running out of money to continue doubling up on the losses or that they would reach the table maximum (maximum amount of money permitted to bet).

In contrast to Roulette gamblers Forex speculators do have a definite advantage. What gives us our edge is that we are familiar with the behavior of the markets and we have technical analysis tools to be able to predict what the market will do with better than just guessing accuracy. By combining trading wisdom with a 50/50 opportunity we hope to increase our frequency of "wins" to have a net profitable effect.

Let's say you have found a "lucky coin" on the street with which you make your trading decisions. By flipping the coin you decide to go either long or short in the market from wherever the market happens to currently be. Let's say that each time you flip the coin you'll enter a trade with a 100 pip stop loss and a 100 pip limit. Chances are that after a series of trades you should have a net result of nothing – your gains equal your losses – or you may have a statistically probable discrepancy between how many winners vs. losers resulting in a marginal net gain (your coin is lucky indeed) or a net loss (better get rid of your UN-lucky coin).

As intelligent traders let's get rid of our oracles (lucky coins, tarot cards, spin-the-bottles, or whatever) and use our knowledge of the Forex markets to make our predictions. The simplest way to describe the "Forex Roulette" technique is to use ANY successful technical analysis methods to determine the probable direction the market will go in, determine the probable distance the market will go in that direction, and determine the probability of the market not going sufficiently far in the direction of your stop, then placing a trade with an equidistant stop and limit based on the above determined predictions. The preceding highlighted sentence adequately describes the "Forex Roulette" method, and if you were to ponder it for a while you could

certainly come up with countless applications for it, but I'll do you a favor by elaborating upon some specifics in this chapter.

Let's say I have a six-sided dice, and let's say I were to proposition you with the following bet – each time I roll the dice if it lands on 1, 2 or 3 I'll pay you \$100, but if it lands on 4, 5 or 6 you pay me \$100. Essentially this is a straight 50/50 proposition to which you might decline playing because ultimately it's pointless because the expected net result should be nothing (or you might play with me simply out of boredom). But let's say that I propose the game that if the dice lands on 1, 2, 3 or 4 I'll pay you \$100, but if it lands on 5 or 6 you pay me \$100 (representing a 66%, 66/33 odds, or 2 to 1 in your favor). After you've made certain that I didn't have loaded dice (I'm not cheating here) you would be very enthusiastic of playing this game with me, and you would want to play this game with me as often as you could. Why? Simply because you know that statistically out of every three times we play the game you'll be winning \$100 net profit. If we rolled the dice 30 times you should be up (statistically) \$1,000.

This “dice game” example described above is what we are trying to accomplish with the “Forex Roulette” method. Your technical analysis tools help you to slant the odds away from 50/50 into your favor. How steeply you slant the odds into your favor will depend on how skillful you are at technical analysis methods, but even if you are very new to Forex and have just begun learning you should already have sufficient skills to at least have a slight advantage. Because of this fact I would recommend the “Forex Roulette” method to novices, but it is also quite valuable to even the most advanced traders.

Having a “Trading Journal” (a note book or electronic document) where you record all your trades (including screen captures of the chart, reasoning for your trade, entry/exit prices, and results) is a great idea for you to keep. In your journal you should also record each “Roulette” trade you've done so you can keep score of your statistics, most importantly your ratio or percentage of winning trades vs. losers (also keeping a running tally of your profit/loss). This will become a powerful document for you to learn from (analyzing what worked for you and where you can make improvements).

After engaging in a bunch of trades (10 minimum, but 30 or more is far better) you can start to calculate what your success ratios are. Remember, you won't “win” every trade, but the higher your percentage is over 50% the better you will do in the long run. If you can get your predictions up to 66% (same odds as our dice example above) or better after some practicing then you've

accomplished for yourself a “Holy Grail” because you have now cultivated a skill that can rack up significant profits over time. Is this a realistic expectation to accomplish? Of course it is! With practice your skills to make appropriate predictions will improve, so keep practicing.

SPECIFICS OF “FOREX ROULETTE”

So now that you have the basic understanding of what the “Forex Roulette” method is let us delve deeper into this subject to understand some of it’s trading rules and to determine how to spot suitable trading opportunities.

In this section I will spell out for you a few specific technical analysis methods to indicate specific trading opportunities, but realize that these will only be a few examples of the countless possibilities available to you. The most important thing for you to learn are the “rules” or logic behind how to select potential trading opportunities so that you can spot your own variations.

RULES & LOGIC FOR “FOREX ROULETTE”

Above I’ve made an important statement that I shall copy again here so that we can dissect the parts of the statement. Here it is:

The simplest way to describe the “Forex Roulette” technique is to use ANY successful technical analysis methods to determine the probable direction the market will go in, determine the probable distance the market will go in that direction, and determine the probability of the market not going sufficiently far in the direction of your stop, then placing a trade with an equidistant stop and limit based on the above determined predictions.

Let’s break apart that statement into it’s components so that we can deal with each point separately.

1. Use any successful technical analysis method to determine the probable direction the market will go in.
2. Determine the probable distance the market will go in that anticipated direction.
3. Determine the probability of the market not going sufficiently far in the direction of your stop.

4. Placing a trade with an equidistant stop and limit based on the above-determined predictions.

The above four points are the steps to engaging into a “Forex Roulette” trade. The below discussions about each of these four steps is a generalization. Later I’ll touch upon some specific applications.

ROULETTE STEP 1

Use any successful technical analysis method to determine the probable direction the market will go in.

The “Roulette” method can be successfully applied to any time scale and size, however my preferred application is based on daily charts going for 100 to 300 pips. I’ll deal with specific applications later in this chapter.

You should already be quite familiar by now with a number of technical analysis methods (having read what I wrote earlier in this eBook and from my previous eBooks) so I won’t elaborate upon them, just touch upon them.

Look inwards from the big picture to see the trends. Start off by looking at a Monthly chart to see what has been happening to get an idea of where the market is likely to be headed over the next month. Then switch your view to the Weekly charts to see what appears to be likely for the next week or two. Then switch to your Daily charts to see what that view shows you. Remember that from different perspectives you’ll see different things. For example, you might see a powerful up trend on your hourly or daily charts, which on your weekly charts might only be part of a minor reversal / retracements of a predominant down trend, which on your monthly charts is just part of a consolidation. You can take that analogy even deeper by looking at 5 minute charts.

You look for patterns that you are familiar with (such as consolidations, trends, or triangles) in any time frame (generally the bigger the time frame the better), and you find the time frame that is currently trending.

Simply put you decide in which direction the market is likely to go just as you would using any of the techniques you have learned. There are far too many things to mention here without this becoming a whole technical analysis course in itself. Use your trading “common sense” to pick a direction.

ROULETTE STEP 2

Determine the probable distance the market will go in that anticipated direction.

This is the crucial step. Picking the direction the market will move in is relatively easy to accomplish from “step 1”. The tricky part is anticipating whether it’ll go far enough for your trade to exit with profit.

There is no point doing a “Forex Roulette” trade for ten thousand pips (10,000) as it could take a very very very long time for that to happen (if it will happen at all), meanwhile you are getting eaten alive by the daily interest rate, or even if you are profiting from daily interest then chances are you could be losing much more against the position.

If, for example, you are trading along a trend that is within a larger scale consolidation, wouldn’t it be stupid to shoot for a target profit that falls outside of that larger scale consolidation? Or if you’re trading along a trend that is part of a larger scale Fibonacci retracements then you certainly wouldn’t look to place your target limit beyond the “golden ration” of 62%.

It is important that you look at the bigger picture charts to see what is a realistic possibility for your trade to be able to reach. If there are key price levels on the larger charts that would indicate reversal points (i.e. consolidation lines, trend lines, Fibonacci levels, triangle boundaries, or support/resistance of any kind) then be sure to keep your target profit limits well within those prices.

Here is also where you look at the “Usual Maximums” that you learned about in the section explaining “ATR”. The purpose of looking at the Usual Maximums, and the average moves is to determine the likelihood of the market moving your required amount of pips in a reasonable amount of time. If your usual daily maximum is say 200 and you are going for a target of 300 pips then don’t hold your breath on your trade lasting for just one day in duration; most likely it’ll take several days.

Knowing the above-mentioned limitations you look for what is probable distances for your trade to accomplish. Then scale down the probable distance to a conservative distance that you feel rather confident that your trade should reach with relative ease. You want, with the “Forex Roulette” method, to go for the trades that appear to be “sure things”, not “pie-in-the-sky”. The more probable your trades are then the better will be your success

ratios, and the more profitable you will be overall using this technique.

ROULETTE STEP 3

Determine the probability of the market not going sufficiently far in the direction of your stop.

Essentially everything stated in the previous applies here, only for the converse reasons.

Do your analysis to determine likely resistance/support levels. Ideally the location of your stop should be safely behind those levels.

Again, part of the reason for finding the Usual Maximums with the ATR indicator is to determine the likelihood of a rogue day hitting your stop. If your stop is within the range of say the usual daily maximum then there is a greater chance that “market noise” fluctuations could hit your stop.

Remember that the best trades (for the Roulette method) are not only when there are ample reasons that the market will move in your desired direction, but also when there are ample reasons that the market won't move in the direction of your stop.

ROULETTE STEP 4

Placing a trade with an equidistant stop and limit based on the above-determined predictions.

Simply place a trade with your stop and limit orders are placed an equal distance apart from the price of entry. Your entry can be based upon any “reason” that makes sense to you (I like entering on previous day's candle high/low).

Once you've made all your analysis to determine a “good trade” and have entered your trade then just sit & wait for it to end on its own.

Remember the point of this strategy is to be right more often than you are wrong, and you will be wrong sometimes (so take your losses gracefully). Over a series of trades you should find that you are right more often than wrong, and it is from this imbalance that you gain your profits.

Extra tip – Doing this strategy on daily charts will typically require stops of say 100 to 300 pips (for equal profits). Of course trade an appropriate amount of lots based on your equity management rules. This strategy can also be applied to smaller timeframes, say on hourly charts, with proportionally smaller stops. Aside from the fact that hourly charts may provide Roulette opportunities with smaller required stops (good for those of you with small accounts trading minimal mini lots), the nice thing is that it also provides you with more Roulette trading opportunities (for those of you who are chronically compulsive traders).

THE INCREDIBLE SCALP

The following technique, which is an adaptation of what was mentioned in the eBook “Forex Scalping” (in section titled “Pattern Breakouts”) can be a **HUGE OPPORTUNITY!!!** Definitely familiarize yourself with this technique as it could score you some unbelievable profits once in a while (certainly not everyday, not even every week, but often enough). **Properly executed this one trade could potentially DOUBLE, TRIPLE, or even QUATRUPLE your account IN A SINGLE TRADE!!! I can’t even begin to tell you of the immense joy you’ll feel when you pull this off! Doing this a few times a year can completely set you nicely financially. If you could only trade one technique at all (thank God we don’t need to be restricted like this though) then make this be the trading technique you engage in. It is that powerful!!!**

If you haven’t yet read the eBook “Forex Scalping” then stop before you read any more of this section. Reading that eBook is a prerequisite before reading this section for the sake of your understanding.

Furthermore, this section was written as a continuation of the discussion in that eBook, so go reread that section (titled “Pattern Breakouts”) so you can follow along the thought process started there.

Something to watch for (and this happens a few times a year) is for when the S.E.X. lines bunch together (the end of the previous trend), and then when they start to separate again (the start of a new trend). Usually when the S.E.X. lines bunch on *daily charts* you’ll see a consolidation pattern (a humongous one mind you) with some really big bounces (good trading opportunities for within range trading as will be discussed later (in the “Forex Scalping” eBook). When the market starts to move in a particular direction, the S.E.X. lines will begin to open up, and when you see a breakout from the

consolidation pattern then definitely engage in the following technique. Furthermore, when the daily charts are trending you can also engage into this technique on the breakout of the wave top (or bottom in a down trend) but this is often not as good as the major breakout of when your S.E.X. lines on a daily chart open up.

It is noteworthy to mention that when your S.E.X. lines bunch up on the daily charts that there are often a few “fake outs”, meaning that you’ll often encounter a series of unsuccessful attempts (yet still profitable) before you score the BIG trade. Keep trying this daily (when the setup occurs) and sooner or later you’ll get a trade that sticks without you getting stopped out in a fake out.

To reiterate, you wait for the S.E.X. lines on your daily chart to bunch together (a large consolidation), then when the market appears to break out from the pattern (you can actually start this when it is still inside the pattern but moving in the direction of the pattern’s boundary) you then start to attempt to do the following. A secondary way of implementing this technique is whenever the price crossed over your 60 period S.E.X. pair. This secondary method will have even more “fake outs”, but even the “fake outs” are usually profitable, so it is still worth doing, especially if it happens to be the attempt that results in your BIG score (which you never know when it’ll be).

Earlier in this eBook I also explained the common concept of paying attention to the 50, 100, and 200 SMA line on daily charts. This is another indicator to watch for opportunities to implement the “Incredible Scalp” method. When the price crosses one of these important MA lines (particularly the 100 and 200 period lines) then keep attempting the “Incredible Scalp” method until it sticks – you might have a number of failed attempts but it is worth being persistent for. Alternatively you could also use EMA instead of SMA. The following chart shows EUR/USD daily candles with 50 (black), 100 (yellow), and 200 (green) SMA lines. Notice that even these lines bunch together from time to time. You can’t really see the details of the candles on this picture so go to your live charts to be able to zoom in for a closer look. What you are looking for are the times when the price crosses one of these MA lines and a candle appears that would be an excellent candidate for the “Incredible Scalp”. You’ll find a few fake-outs but sooner or later there will be a candle that would have resulted in a trade for hundreds of pips, even over a thousand.



You simply scalp an entry at the breakout of the previous day's high (if uptrending or the previous day's low if downtrending). As soon as you can you replace your stop order to lock in a 10 pip profit. Then you simply wait.

You might see something that looks like this (these represent day candles):



Sooner or later you will have a candle that closes beyond your scalp entry point, and when this happens you are happy. Often near a breakout from your bunched S.E.X. lines you'll see a "shoot" lasting a few candles, and if you are in a trade when this happens then you are really happy.



The above chart shows some yellow highlighted areas where such a setup occurs. It may be somewhat hard to see clearly on this image so go to your charts and look up EUR/USD daily candles in late 2004 to have a better look. While you are at it scan through the past 10 years looking for this setup on EUR/USD, and a few other currency pairs you might like to scalp.

What you then do, once you've been entered into a successful attempt is you later replace your stop to be at the low (assuming an uptrend) of the second day's candle after the end of that day, or better yet, end of the next day. In the illustration above (of the four blue candles) it would be the low of the third candle once the fourth candle either started (once the third candle was completed) or at the end of the day of the fourth candle. By replacing your stop even higher you will at least secure a significantly (usually) larger profit incase the market should soon after turn around. Usually this will be around (plus/minus) 100 pips, which is certainly not bad if this is the price at which you get stopped out at.

Another way to get your stop moved up out of the risk zone is to wait for a day that the entire candle (body & wick) is beyond the range the candle you entered in on. At the very least replace your stop to your entry price for a break even, then later trail your stop as appropriate to start securing more and

more profits.

Once you have done the above stages then you simply relax and wait to see what happens. You'll either get stopped out (oh well, at least by now you've secured a decent profit) or you'll see a nice trend develop, which is the scenario you hope will happen. When EUR/USD trends on a daily chart you'll see that it will trend for hundreds of pips, and often well over a thousand pips.

What you do is you simply check your trade on a daily basis (actually checking it once a week is fine too) and all you do is you trail your stops to the lows (for an uptrend) once the price has crossed over the top of the swing. Reread the eBook "Forex Surfing" as there I explain how to trail your stop on previous lows.

When you eventually catch a successful run (after a series of "fake outs") your trade could last for several months. Sooner or later you'll get stopped out for a handsome profit. Note that by using such a trailing stop you'll often get stopped a few hundred pips from the very top of the trend, but that's ok as you're not trying to scalp an exit at the tops; you're using a standard trading exit technique that most traders would use in a similar situation.

In the above chart you would have gotten stopped out for a little over 800 pips. Remember the example I explained earlier (in the "Forex Scalping" eBook)? If you had \$10,000 in your account and you entered trading 200K (two regular lots or 20 mini lots) risking only 2% on the trade then your net profit (more or less) would be about \$16,000. Your account would have thus grown 160% (to \$26,000) in a little less than two months!

Here is another variation of the "Incredible Scalp" that you could also be trying. Often times the market is already trending (as seen on a daily chart) and it could be months before the next setup occurs to trade as mentioned above. This gives you something to do while you are waiting for the next big setup, particularly if you've missed the last one.

Earlier (in the eBook "Forex Scalping" in the section titled "Micro Trends & Trends") I discussed the concept of trading along trends. As stated there, it is best to scalp an entry at the strategically significant entry points (i.e. trendline bounces, fibs, etc...) but there is another way to attempt trades on the daily charts when you see a trend in progress.

This technique is intended for daily charts, as stated above, during a trend seen on your daily charts. A trend, for the purposes of this technique, can be what would normally be considered to be a trend, but it can also be shorter daily chart trends within a consolidation/pattern range or in a market reversal (even just a Fibonacci retracement). These smaller trends are still trends, and they only appear to be “small” in contrast to the relatively larger trends seen on the daily charts; remember that these smaller trends are often hundreds of pips tall so don’t discriminate against them because they can make for some excellent trades.

One more thing before I explain the technique. When employing this strategy (or the one mentioned above) you need to keep in mind what your objective for the trade is. If you are scalping with the intention of taking the maximum profits TODAY (getting in & out within minutes or a few hours) then you are “day trading”, and that is a perfectly suitable objective. You can however use scalping methods as an entry method for larger and longer trades. If you enter a scalp with the intention of holding the position for a days, weeks, or even months then you are engaging in “Position Trading”. When you start a scalp trade with this objective in mind then your exit strategy will change, and you won’t be trying to scalp an exit at the best price possible at the end of a “Petit Trend”, but will have far more relaxed stops in order to give the trade room for fluctuations so that you can potentially score significantly larger gains. So keep these concepts in mind when doing these techniques – you are using a scalp for entry into a larger position which you’ll then use another style of trading methodology to later exit your trade with.

Ok, here is the technique.

What you do is you first search for some kind of a trend on your daily chart. It can be a regular trend (the daily charts are trending as you would normally define a trend), or it can be a trend within a consolidation/pattern range, or during a regular trend where you see a reversal (could be a reversal or just starting a Fibonacci retracement).

You only employ this technique in the direction of the trend you are looking at. When the market is micro-trending in the opposite direction of the larger trend you are looking at on your daily charts the simply don’t use this method. Smaller micro-trends going in the contrary direction are normal (the markets always bounce), and so it is better to use other techniques during such times (i.e. scalping or surfing for just a short-term trade).

So when the market is micro-trending in the same direction as the larger trend

you are observing then enter a scalp as appropriate. The scalp does not have to be at the breakout of the previous day's high/low (as described above), but at any time convenient to you (preferably early during a market overlap time). As soon as you can then of course bring up your stop to secure a breakeven, and then as soon as you can bring it up to secure a 10 pip profit. Once you have done this then just forget about this trade for the rest of the day.

Remember that the “*objective*” of this trade isn't to catch as many pips as you can *today*, but rather you are engaging into a “position” trade. Chances are (hopefully) that soon after you've set your trade that the market will continue moving in your favor, and soon you might have 20, 50, 100 or even more pips just sitting there. You might be tempted to close your trade for those profits, but just relax and resist any such temptations. You have your stop already set securing 10 pips of profit, so don't worry, you are now in a “free trade”, meaning that you can't lose, but only stand to gain. The objective of this strategy is to allow your profits to run, and chances are (hopefully) that by letting it run for several days, or longer, that you might catch significantly more pips than the pips you've already gained thus far today. Yes, the market could reverse and you'll lose all those extra pips, but you'll still have your 10 pip profit. If the market however moves in your anticipated direction then you could potentially gain many more pips.

So now you have a trade entered and (hopefully) the market has trended in your anticipated direction. What you do now is every day you simply increase your stop by 20 pips. If the market is indeed trending then increasing by 20 pips is still small enough to avoid getting stopped out by market fluctuations, but for every day you are in the trade at least you are securing additional profits (or you can simply increase by 10 pips if you are concerned that the market is slow thus increasing your chances of getting stopped out early). Those additional profits secured each day also compensate for the overnight interest you'll be charged (which is typically around 1 pip per day). Every day that you are in the trade you keep on securing more and more profits. If the markets were to reverse and stop you out then you'll at least have left with a respectable profit. Say your trade lasted 5 days before you got stopped out then you might have left with over 100 pips, which is certainly good. This would represent a 1:10 risk/reward ratio, and if you risked 2% then you've gained 20% on your account.

What you ALSO do everyday is you watch your charts for swings in your trend. You watch both the hourly charts and the daily charts. At some point you should see a swing (a.k.a. a wave) that retraces and then extends past the

peak of the wave. This is extra significant if the retracement came down to a trendline bounce or a key Fibonacci level. Once you've witnessed a wave on your hourly charts (but preferably the daily charts), and the price has already extended past the peak of the wave then you simply replace your stop to that swing's low (for an uptrend, just reverse what I say for a downtrend). This is standard "trailing your stop" along a trend using the retracements as your stop points.

After you've replaced your stop to a swing retracement low then you continue with increasing your stop by 20 pips everyday. You keep watching for new swing retracements to replace your stop to, and when it happens then you do, but on all other days you just keep trailing your stop by 20 pips.

Sooner or later your trend will come to an end. If you've engaged your trades within a consolidation range then at the first sign of a reversal at the boundary of the range you may just manually exit your trade to take a profit. If you've been trading along a regular trend then it too will eventually reverse. If you've replaced your stop to the most recent retracement and trailed daily by 20 pips then sooner or later you'll get stopped out. The wonderful thing about doing a daily 20 pip trail is that you'll ultimately capture more profits than just waiting for it to fully come back to the retracement bottom.

Doing this you could potentially catch hundreds of pips, or at least far more than you normally would by just scalping for a day trade. This is a strategy that can be implemented on most days (when the conditions are right), so it is a strategy you could be looking to potentially engage into everyday.

Here is one more tip applying to that strategy. Since it is something you can possibly engage into daily (or every few days – depending on when the conditions are right) you can keep adding more and more trades. If your previous trades from prior days are still profitable, and the conditions look good to implement another trade using this strategy then do so. Essentially you are now "compounding" your gains. If you have multiple trades entered along the trend then you are compounding how much profits you secure each day by trailing by 20 pips. If you have 5 active trades then each day you are securing about 100 pips!

Treat each trade separately, trailing each trade according to the rules explained above. As you'll likely have multiple trades each with different stops then some of your later trades might get stopped (for profit of course) during a retracement, but some of the older trades might still remain active. After the retracement, and once it starts doing an extension (while still in the

retracement area) try to pick up some more trades.

Remember that once you've entered a scalp and have secured the initial 10 pip profit you can happily wait to see what happens over the next days (while still trailing daily by 20 pips). Sure you'll get stopped out (for profit), but just keep adding more trades in the direction of the trend at every chance you get. Some of the trades will last for a long time (weeks, even months), and if you have a compounded series of trades you can score some HUGE gains! Done properly you could potentially net **hundreds** of percents of net profits along a trend seen on your daily charts in a relatively short time period.

To illustrate a hypothetical example, let's say you've jumped into a trailing market with five positions (five trades) and you've eventually gotten stopped out with 500, 400, 300, 200, and 100 pips for the five trades (in real life it never works out to such perfect numbers, but this is a hypothetical example). Cumulatively you would have netted 1500 pips (assuming you've traded an equal amount of lots for each trade, and if your initial risk was 2%) then you would have made about 300% profit on that series of trades. To translate this for you into dollars this would have meant that if you started with \$10,000 your ending balance would have been around \$40,000 – on a series of trades that might have lasted just a few weeks (and relatively little effort on your part).

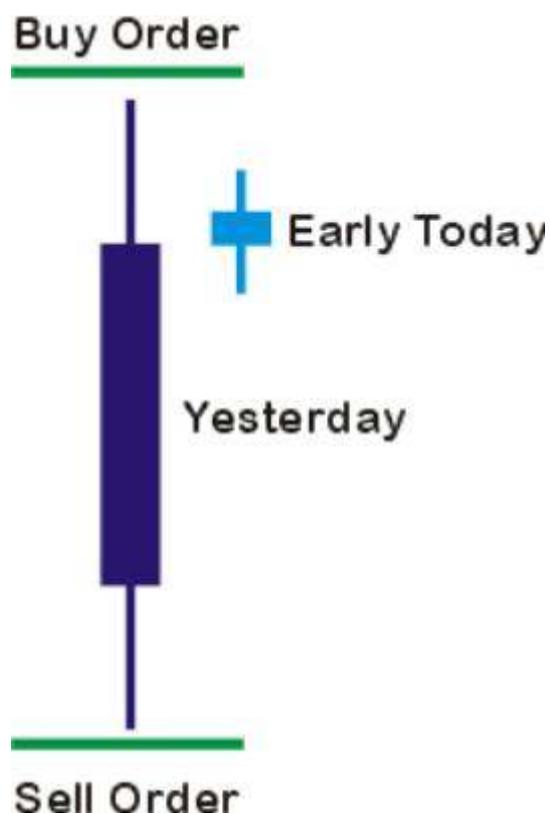
Let me summarize this concept for you. So that we have a convenient label to call this technique for future discussions we'll simply call this the “**Scalp & Run Technique**”. Enter a trade using a “scalp” in the direction of the predominant trend seen on your daily charts, and quickly secure a meager 10 pip profit. Trail the stop daily by 20 pips (or 10 pips for a slower moving market). After a retracement, and after the market has extended above the top of the wave then replace your stop to the retracement low. Continue trailing your stop daily by 20 pips from that point. Whenever you can (attempt daily when micro-trending in the direction of the larger trend) add another trade to “compound” your gains along the trend. Some of the newer trades added will get stopped out soon (short lived), and some of the newer trades added will run for quite a distance – so keep trying often (almost daily). Either exit the trade by tightening your stops to secure maximum profits if the trend approaches a likely reversal level (like a range boundary), or if in a regular trend then simply allow yourself to get stopped out by simply following the above mentioned rules. Once all your positions have been closed (from being stopped out) then reevaluate the current market direction and start all over again.

NETLESS CANDLES

“Netless Candles” is a trading technique that combines some of the concepts taught in earlier sections of this eBook. It provides an excellent trading opportunity that is similar to the “Incredible Scalp” yet is more suited for people who don’t have much time to spend trading. This technique can easily be considered a 10-minute daily Forex trading technique in that all you would need to do is spend about 5 to 10 minutes each day looking for suitable setups and to monitor your existing trade(s). Furthermore it doesn’t really matter when you engage in your trading activities – anytime after the close of the N.American (17:00 EST) and before the Asian/European overlap time (02:00 EST) is best (which is a large window of time so you can do this when most convenient for you).

Let me give you the brief overview of this technique first and then I’ll go over some more specifics about this strategy.

The concept is simple. After the close of a DAY candle (after 5pm EST) then you simply place a “Netless Straddle”, one trade on the high of the now “yesterday” candle (to buy long), and the other trade on the low of yesterday’s candle (to sell short). You place NO stop orders and ABSOLUTELY NO limit orders. (Alternately, since you are dealing with a trend you can simply put your order in the direction of the trend with a stop at the other end of the candle. No second trade is needed.) The candle itself is the straddle, and sooner or later the price will breakout from the range of that candle’s amplitude. When it does then (hopefully) the market will continue in that direction, but if the market ends up reversing then the other entry order on the other end of the candle will act as a stop.



As you can see from the above diagram, it is important that today's candle has not yet crossed beyond the high or low of yesterday's candle. The earlier in the day you act the more likely you'll be able to place your orders before the high/low is penetrated (remember that the day ends at 4:59 pm EST and the new day begins at 5:00 pm EST, at the close of New York business hours).



This diagram shows what will eventually happen (it is inevitable – occasionally you’ll get a “Harami”, a candle that doesn’t cross either the top or bottom, but I’ll do so most likely the next day. If you do get a “Harami” then use the high/low of that smaller candle.). The current market price has broken out of the range of the candle, in this case on the high side. Once this has happened your entry order would have been activated, and in this example you would have bought going long (going up).

Netless candles are good for “Roulette” types of trades for a fixed profit target, but they are also good for entry early in a new trend (after trend break, S.E.X. lines spreading) to “sail” for longer trades. You can also use the advanced split exit method discussed later in this eBook, so half can be a Roulette trade (exit at limit), then replace the stop to entry price for the second half of the trade (so you have zero risk now and have already taken some profit) to let the second half of the trade run for bigger profits (trailing stop appropriately).

NETLESS TEENY DAYS

Some days the market makes large moves (i.e. well over 100 pips, often hundreds of pips), but there are also days when the amplitude of the candle is

relatively small. Generally a day that has moved much less than 100 pips (on EUR/USD, different for other pairs), for example an 80 pip, or even nicer, a 60 pip tall day candle is what I would consider a small “Teeny Day”. If you find a 50 pip or smaller day (on EUR/USD; may be different for different pairs) then certainly go for it. (FYI, in my mind I’ve been calling it a “Doji Day”, but since this is an inaccurate description that might lead you to confusion I’ve simply renamed it to “Teeny”).

Simply call up your daily charts of whatever currency pairs you like. Looking at the candles you’ll see that some are rather large, bigger than average (usually part of a shooting trend), and there are some candles that are rather small, smaller than average. Pick out a few of the smaller ones to measure their height so you can get a sense for how small a candle needs to be for that currency pair for it to be considered a “Teeny Day”. Another way to see what are some of the small days is to look up the 1 period daily ATR (explained earlier in this eBook) and look along the bottom of the ATR chart to see roughly what the average small day is.

Often you’ll see a “Teeny Day” at or near the apex of a peak/valley before the market reverses (hence why I’ve called them “Doji Days” in the past), but they often occur in the middle of a trend (a stagnant day or series of days). When you get a tight consolidation you’ll see a bunch of “Teeny” candles there, but it is best to avoid trading in those situations.

Ok, so what do you do with “Teeny Days”? You simply straddle the candle and hope for the best! Because the stop requirement is so small (since the candle is small) you stand a much better chance at having a great risk-to-reward ratio, as (hopefully) you’ll have a larger day(s) following your entry. Once you’ve gotten in on a Teeny candle then simply continue the trade as described above for Netless Candles.

There is a greater chance with smaller candles that both directions could get breached, however I am quite surprised how infrequently that actually occurs. Teeny candles, when they occur are excellent opportunities to trade.

Here is a “big tip” for this technique: Look for times when the market has made a wave to roughly a key Fibonacci level, most notably the 62% level. Often you’ll see a teeny day candle around that point where the market reverses (often a morning/evening star doji). These are good places to attempt this technique because if it works you can ride the profits (trailing with a stop to lock in profits of course) for potentially hundreds of pips. Conversely, when you project the Fibonacci extension sometimes you’ll see a similar setup

at the peak of the extension, though I would use these far less often (but if you see a teeny candle there then why not try it). Here is a chart shot showing what I mean. I've indicated where some opportunities were, but there were more opportunities than shown. (For a clearer view go to your EUR/USD daily charts)



On this chart there were quite a few teeny days that would have also made for a very nice run (of hundreds of pips) but I didn't point them out.

Teeny candles offer excellent risk-to-reward ratios. If doing this you don't want to do a "Roulette" trade as you have high potential for significantly better returns. At the very least, if I wanted to restrict myself to a "Roulette" type of trade then I'd at least use the "Average Daily Movement" (learned in the section on ATR) as the limit (say 112 pips). Better yet, I'd use such a modified "Roulette" trade in conjunction with a Split Exit (explained later in the eBook).

Look for these "Teeny Candles" and when they occasionally occur on your Daily charts (and the rare times a suitable one happens on Weekly charts) then try to catch a fun and profitable ride on them.

FIBONACCI & MODIFIED

In "Forex Surfing" I introduced you to the concept of Fibonacci, and within "Forex Classics" you have learned even more about this concept. It is not my intention to delve into a full explanation of Fibonacci techniques as this subject had been adequately explained in those other eBooks. In this section I

intend to touch on these concepts, with a couple of modifications, so that you combine Fibonacci methods with the “Sailing” styles of trading.

As I have already declared before in my other eBooks, I am particularly fond of Fibonacci based styles of trading. I have personally found that Fibonacci works, and that is probably why I love it so much. Applied correctly you’ll find that it will frequently result in a positive trade, and so I encourage you to make it a regularly used tool in your trading toolbox. With some successes I’m sure that you too will grow to love it.

Fibonacci theory can be applied in all the various chart scales. Fibonacci waves (or “Fibs” as I’ll call them from now on) happen on your Monthly charts and on your 1 minute charts, including all the chart scales in between. You will also see that the advanced aspects of Fibs, the Gartleys & convergences, also occur.

When you see a Fib formed on your Monthly or even your Weekly charts you do **NOT** proceed to trade them according to the “standard” methodology for trading Fibonacci waves. The standard way of course is to enter at around the 62% retracement level and placing your stop loss order at the bottom of the wave. Needless to say that such a stop might require many hundreds, sometimes even thousands of pips, which is too great a risk.

Fortunately there is a better way. What you do is wait until it comes approximately to the 62% level (known as the “*Golden Ratio*”) then watch for reversal signals. Earlier in this eBook I discussed the “fractal nature” of trends, and suggested that you zoom into smaller scale charts to get a more detailed look. You might see “doji”, stars, or other famous reversal patterns (i.e. King’s crown, double tops/bottoms, etc...) in the various chart scales at or near that 62% level. In other words, you are looking for “*reasons*” that support your suspicions that a market reversal is likely to occur. When a reversal appears obvious then you zoom into your smaller scale charts (i.e. the Daily charts or 1 Hour charts) to search for a suitable trading opportunity (almost any kind would do; some being better than others) to go in the direction of the expected market extension. As soon as reasonably possible be sure to replace your stop to at least a breakeven (at same price as your entry price) or better yet securing a small profit. Once you have secured your stop to lock in some profit (or a breakeven) then you are in a “free trade”, and just let your trade run... sailing away to a profitable horizon.

The reason why traders typically set their stops to be at the bottom of the wave is because sometimes the market will fake you out a bit and dip down a

little more before going into a full extension. As stated earlier, such a stop would be incredibly large if you were to trade Fibs on Monthly or Weekly charts. Thus you now have a modified version of how to trade Fibs (what I shared in the previous paragraph) so that you can participate in huge trades and with more lots traded. The tradeoff however is that you have a greater chance at being stopped out early by a “fake out”. That is ok because you should have secured a stop at a meager profit (or at least breakeven) so you shouldn’t have lost any money. What you do is you TRY AGAIN. Sooner or later an attempt will hold allowing you to run for many hundreds of pips, sometimes even over a thousand pips. It does require a little more work than the standard method of trading a Fib (as little as 5 minutes a day isn’t exactly breaking a sweat) but the potential rewards of trading Fibs according to my methodologies will allow you to score significantly better profits for essentially the same market move.

Now what about trading Fibs on smaller time scales, such as on Daily charts or Hourly charts (or some other similar increment)? Well, finding a tradable Fib on a Monthly or Weekly chart will certainly provide you with a HUGE trading opportunity, but as you can imagine they only come around once in a while. Fibs on a Daily chart happens quite often, and Fibs on an Hourly chart even more frequently; these are your “bread & butter” opportunities to make good profits. Feel free to trade Fibs off of these charts by either using the standard Fibonacci trading method, or (the better choice in my opinion) use my modified method of trading Fibs, as explained earlier, only of course modify the scales to better fit the size of Fib you are trading.

Here are a few extra tips about trading Fibs for you.

Watch for when a retracement occurs at or near the trendline, which frequently happens. This is a double “*reason*” for your trade to go well as you now have the “reason” of a Fib bounce AND a the “reason” of a trendline bounce.

Invest the time to cultivate the skill of recognizing Gartleys (I discuss this a little later in this section). They certainly aren’t as obvious to “see” as say a triangle, but they are there. **The only way to condition your eyes to spot them is to actively practice hunting for them.** Go over your charts looking for Gartleys that have happened and even try to find some that are still in progress. Over time you’ll get better at spontaneously recognizing them, but I personally find that it is something that I still have to actively look for. Not only do they provide you with marvelous trading opportunities, but **they also give**

you “reasons” for potential support/resistance levels, and the knowledge of those “reasons” can also be applied to other trades that you do.

Remember that a Fib retracement of a wave on a Monthly or Weekly chart provides a substantial trend that you’ll likely trade on smaller scale charts. Being aware of the key Fib retracement levels will tell you where to expect potential reversals in your smaller trends. This is a valuable “*reason*” to be aware of.

Earlier in this eBook I discussed that there are “*trends within trends within trends*”. Be equally aware of the fractal nature of Fibs as there are “*Fibs within Fibs within Fibs*”.

One of my earliest trading innovations (from a long time ago) was to look for a tiny Fib to enter a trade on (using standard Fib trading methodology) shortly after the market reversal at the 62% retracement of a larger Fib. This was my first attempt to get on a Fib by using a modified Fib entry method... and is a technique I still use today! Eventually this idea got further refined into the standard “Surfing” technique.

Remember to watch for Fibs on the reversals of trends. I find that using my modified technique of trading Fibs (as explained above) reduces my risk against those times that the market ends up continuing the previous trend.

Keep playing around with Fibs. Practice working with them and use them for your trading. You will find that Fibs will consistently make you substantial profits.

I wasn’t intending to do so but I’ve decided to just briefly discuss Gartley convergences with you a bit here.



Ok, very quickly, here are the numbers of the waves.

On the big down wave (on the left of the chart) the high was 112.61 and a low of 109.03 (obviously this was on USD/JPY). The 79% retracement would be 111.84, and a 62% would be 111.24.

On the smaller up wave (middle of the chart) the low was 109.03 and the high was 110.83 (exactly the 50% level of the big wave). It retraced to 109.34 which was about the 79% (actual = 109.41). The 1.618 extension would be 111.94 (I know, normally for a 79% retracement you project a 1.270 extension, but you look at both, just incase, as actually happened in this case), and the 1.270 extension it would be 111.32.

In an ideal world the price “should” have reversed somewhere between 111.24 and 111.32, but as it happened it actually reversed at 111.78 which was very close to the 79% retracement of the big wave and close enough to the 1.618 extension of the small wave.

This is a “real world example”, meaning that this isn’t “text book perfect”. Sometime I prefer to show you “not perfect” examples so that you know what to expect when you actually trade in the real world, and so that you don’t have unrealistic expectations and miss many wonderful trading opportunities that weren’t exactly “perfect”.

Ok, so why am I showing you this more advanced Fibonacci application? Simply put, by learning to recognize Gartleys and Fib convergences you will find potential “reasons” for likely reversals to occur around certain price areas. This way you are not caught off-guard and

surprised when a reversal occurs, and you can even come to anticipate them... preparing you to make appropriate trading decisions.

TREND TRADING

Earlier in this eBook I discussed Trends and their fractal like nature in some depth. In my own mind at least, I consider what I wrote there to be some brilliant concepts in regards to the topic of trends. There I also stated many useful implications for trading, but here I will try to add a few more insights.

As stated before, “Trend Following” strategies are what make you successful as a trader. All trades somehow capitalize on trends as the price moves from where you entered to where you exit; some trends being more obvious than others. The trader’s cliché is true, in that the “trend is your friend” while you are moving towards greater profits, “until it ends” at which point you need to quickly get out. You could conceivably trade (mostly by luck) without being aware of the trends, but by following the trends you’ll consistently be able to capture substantial gains. **Being able to trade through the duration of a trend will allow you to maximize the possible gains. Thus the trick is to be able to get in early on a trend and to stay as long as possible on it.**

Getting On Early

Earlier in this eBook I offered you many valuable suggestions on how to find trends (in various scales). Ideally a trend will start supported by multiple “reasons” in various chart scale perspectives (but not always that many clear reasons), and **you spot the commencement of a new trend by the death of an old one** (a trend reversal), so look for common trend reversal patterns too. Remember that a sideways consolidation is considered a sideways trend, and it ends by a breakout (same thing with triangles and other confined patterns).

Once you find the beginning of a new trend then you may trade it by just about any trading method that seems appropriate to you for the specific circumstances you are faced with. There is no standard trading entry method for trends, thus make use of any suitable trading methodology I taught you in any of the eBooks. The key is to get in on a trend at strategic places (i.e. near trendline bounces, Fib retracements, or other “lows”) using whatever trading method suitable, and preferably with as small a trade as pragmatically possible so as to ultimately shoot for the best risk-to-reward ratio possible (and the smallest loss). Obviously the chart scale you are trading off of will also

dictate to you what kinds of trades you can and can't do (mostly due to the restrictions of your equity management rules). The objective is to get on board a trend, and though you don't know how long the trend will last, you hope to "let your boat sail" for as long and far as possible (however long the trend).

Staying The Course

While in a trade sailing along within a trend you will need to monitor how your trade is going. Obviously you'll want to trail your stops (discussed later in this eBook) and keep a sharp eye out for any indications that your trend is ending (reversals).

Earlier in this eBook I extensively explained the concept of "S.E.X. Lines", which is a valuable tool for monitoring your trend. As a trend begins your S.E.X. Lines open up in the direction of the trend, and the various line pairs act as a kind of moving trendline. Notice how the market bounces off of those various pairs of lines, and even penetrates them. After observing them you'll learn how to gage such bounces and even the penetrations, which frequently happen during a Fib retracement. In addition to your line pairs acting as a sort of moving trendline you also have the feature that the pairs themselves function sort of like a MACD indicator; as the market moves faster the pair lines will diverge, as the market slows the lines will converge, and even cross if the market slows to a stagnation or even begins dipping down. All this information, in conjunction with other "reasons", particularly where the market price is in relation to the trendline, will give you valuable insights into what is going on with your trend, and with your trade.

Burying Your Friend

Sooner or later your trend will inevitably have to end. Hopefully you've found "reasons" that would lead you to anticipate the end of your trend near around where it did actually end (i.e. maybe with a Gartley or a previous high/low offering support/resistance). Regardless of whether you accurately predicted where your trend would end you act on the reversal signals (i.e. trend breaks, reversal patterns, S.E.X. Line bunching on larger scale charts, whatever). You either try to "scalp" your exit as near the top as you can, or you simply let yourself get stopped out (aggressively tighten your stops if you see a likely reversal).

Once your trade is over then you watch the market like a vulture looking for the next easy trade you can scavenge.

GENERAL SAIL TRADING

I would like to briefly summarize the concept of Sail trading as a general rule of thumb for you.

The goal of sailing is to engage into trades that have a good likelihood of lasting for many pips to capture substantial profits along the way. Looking at larger scale charts find a trading opportunity, then zoom into finer scale charts to further isolate the optimum time to enter a trade, and determine what trading method would be best applied to your particular opportunity. Attempt to remain in the trade for the duration of the trend that you are trading, being vigilant to watch for reversals at any point along the trend, but hopefully having found “*reasons*” for a reversal to occur at some area to be better prepared for the reversal.

That is it. Period. If you understand what that paragraph stated then you understand the point of this entire eBook. Everything else in this eBook is just some “pointers” to enlighten you about what to look for to be able to engage into “Sailing” trades.

Final tip: Remember that opportunities can be found in ANY chart scale; from the Monthly charts all the way down to the 1 minute charts. Wherever you find an opportunity just zoom down to a lower chart to find a suitable entry to get on board that larger scale opportunity which you’ve found. If you are a chronic compulsive trader then you’ll find plenty of sailing opportunities on the lower end of the scale spectrum, but if you prefer to spend minimal amounts of time trading then just stay within the higher end of the scale spectrum. You’ll likely find a range within that spectrum that you focus most of your efforts based on your personal preferences.

EXTRA THOUGHTS

KISS – KEEP IT SIMPLE SMARTY

In the “Tao of Jeet Kune Do” Bruce Lee said one of my favorite quotes:

“Before I studied the art, a punch to me was just a punch, a kick was just a kick. After I’d studied the art, a punch was no longer just a

punch, a kick was no longer just a kick. Now that I understand the art, a punch is just a punch, a kick is just a kick”

In much the same way when you are learning all the concepts taught in this eBook a trade isn't just a trade; there are many complexities and variables to be aware of. After you've integrated the concepts and really understand them then a trade will be “just a trade”. What may now seem complex will become simple, and you'll find that all this is really quite easy.

The notion of “more is better” isn't always true. You can have a complex mess of indicators & lines on your charts (i.e. having Stochastics, Bollinger Bands, MACD, S.E.X. Lines, Fibonacci, Gann Lines, Pivots, fanned trendlines, some MAs, RSI, and a handful of other stuff), but doing so will most likely lead you to total and complete confusion rather than clarity (as each individual indicator or line aims to provide). Over analysis can lead to paralysis; the incapacity to trade. I often say “*just because you can do something doesn't mean you should do it*”, and applying a barrage of technical analysis tools is one of those things that you would be best to avoid.

Think of going to the ice cream parlor; you don't order a triple scoop of ice cream if you can barely manage to control a single scoop from dripping and making a mess. If you are a juggler you only juggle as many balls as you can keep going in the air. As you are learning you don't have to immediately apply everything you learn all at once. Take the time to integrate each skill and add on as you feel comfortable. Soon you'll be able to order a triple scoop of ice cream, juggle five balls, and meaningfully understand several technical analysis perspectives simultaneously.

Experienced traders know the futility of trying to have too many indicators and technical analysis perspectives all at once. Again I remind you of the saying, “*just because you can do something doesn't mean you should do it*”. Often numerous indicators will provide conflicting indications, and having too much info, said again, leads to paralysis from indecisiveness.

Just because I can teach you about some of the other indicators & technical analysis methods notice that I didn't (not yet anyhow, I do plan to write other eBooks). This is because I opted to show you what, in my opinion works. Period. (The other stuff I'll end up showing you over time will add to what you are doing, but just stick with a few of your favorite techniques).

There are many traders who spend a great deal of time learning and applying a bunch of fancy techniques and don't make any money. Simply focus on what

works, and what works is simplicity.

Though learning all the stuff you are discovering in my eBooks might understandably seem complex in the beginning I am sure that over time it'll settle into your mind to be quite simple. In the mean time take everything at a comfortable pace for yourself.

SPLIT EXIT METHOD

When you trade you don't have to make a full exit each time you exit a trade. If you trade multiple lots (regular or mini) then you can take advantage of the "Split Exit Method" for advanced profit taking.

The "Split Exit Method" may be employed on just about type of trade. For example, you can use it on Fibonacci to take limit at the short and long extension targets, you can use it with "Netless Candles", half as a Roulette trade, and the other half to let it run, you can use it with a "Running Scalp", half to exit at the end of the day while letting the other one run for (hopefully) many days, or with just about any trading strategy where you might want to take a partial profit and let the other portion continue for potentially more profits.

Regarding risk-to-reward ratios, you can have one, for example exiting at a limit for a 1:1 ratio, and the other trade going for say 1:2 or 1:3 (or more). This way you can "*have your cake & eat it too*", by taking a "safer" profit while also allowing yourself to go for a riskier profit target.

You can even get more creative with this concept; you don't have to do two equal trades, you can do say three equal trades (exiting at three different targets), or, for example, you can do two trades but one is larger than the other (i.e. one for two lots and the second for one lot, or vice versa).

The benefit of a split exit is that by taking profit early on half of the trades then usually you can let the other trade run for potentially more profits (trailed appropriately). Doing so means that you (typically) will have zero continued risk (on the continuing trade), and often have secured a profit (so even if the other part bombs you've at least taken some profit).

The best way to set yourself up for a split exit method is to start off both halves of the trade as separate trades from the start. Manage the stops & limits of both trades separately, with the limit order of course being different

for each (or one has a limit & the other doesn't).

If you didn't have the foresight to create two separate trades from the beginning then you can do some quick trade switcheroos to get you into such a situation. The simplest way to do this is to set your limit order to exit the full trade at the early target price, and to have an entry order set for the same price (remember the pip spreads) but with fewer lots to initiate a new trade to be the size you want for the second longer trade. There are other ways that a switch can be accomplished, but this suggested method (starting a new trade as the first exits) is the simplest.

Play around with this concept with your trading to leverage yourself through a "safer" trade into (partially) running for larger profits. Remember that once you have a "free trade" (you've already secured profit no matter what) that you don't want to do anything stupid (it's better to take profit then to risk it unnecessarily), but intelligently letting the second half run (when you have "reasons" that indicate that there are good possibilities) gives you the chance to capture an occasional landslide profit.

TRAILING STOPS

I have discussed trailing stops in my other eBooks, but because it is such an important topic I'll touch on it here once again. It is important to realize that I'm talking about MANUALLY replacing your stops here in this section, but I will also address the subject of **an automatic stop** here as well (which wasn't discussed previously).

Manually Trailing Stops

Some of your trades you will be employing a "limit order" to have a fixed exit price for profits on your trades. For example, if you are using a Fibonacci technique with a limit set at the 1.618 extension, or if you are doing a typical "Forex Roulette" trade, then you don't need to concern yourself with trailing stops. However, if you DON'T have a predetermined exit point for a profit on your trade then you would use a trailing stop approach.

The purpose of a trailing stop serves two purposes. It protects gains that you have already captured through your trade so that if the market should happen to reverse then you won't risk those gains but rather your trade will be exited at a profit. The second reason for using a manual trailing stop is so that your trade may continue to run as far as the market moves, securing profits along

the way as discussed previously, but so that it becomes your strategy to eventually exit the trade (since you don't have a limit order to exit the trade with).

The general way to manually trail your stop is to monitor the trend on which you are trading and to wait for a retracement in the market. You should by now be well aware of the fact that the market moves in waves. After the market has retraced setting a new low (for an up trend – conversely a new high for a down trend) and has again extended past the peak of the wave THEN you replace your stop price to the lowest price of the newly established low (for an up trend – the high for a down trend).

By following the standard method of trailing your stops, as just described above, will eventually result in your trade getting stopped out once the market reverses. Here is a tip – Usually you'll see signs that the market appears likely to reverse (i.e. trend break), and you may trail your stops more aggressively (how will depend on the specific nature of your trade) to potentially get stopped out earlier for larger profits. The upside is that you can leave with more profits, but the downside is you might get stopped out before the market resumes the trend (simply look for another way to enter it in that case).

Automatic Trailing Stops

Many brokers have added the ability to dynamically trail your stop through their trading software. This means that you can set your stop order at the initial price you would normally set your stop at and set a number of pips to automatically trail your stop those many pips behind the market. For example, you might choose to trail your stop by 112 pips (the usual daily average move for EUR/USD). Please remember that this is just an example; you may trail by however many pips seems logical to you for your particular trade. Thus with a 112 pip automatic trailing stop as the market moves up 112 pips then your stop order will automatically be readjusted that many pips trailing the market.

The nature of your trade will dictate to you by how many pips you want to trail your stop by. You may trail by 10 pips, 50 pips, 137 pips, 492 pips, or however many pips you want. The general idea is to trail by a loose amount; you don't want to trail too closely otherwise you'll quickly get stopped out, but conversely you don't want to trail too far away either as you might miss out on locking in substantial profits.

At the time of my writing this eBook brokers have only relatively recently added the ability to automatically trail stops. I am working on cooking up some specific trading strategies to maximize the function of auto trailing stops but I'm still testing my theories & techniques, thus I won't share them with you yet.

In my personal opinion it is best to manually replace your stops as you'll be able to factor in market conditions but a mindless automatic trailing stop can't. If you are away from your computer and can't monitor your trade then use a loose (many pips away) automatic trailing stop, but be sure to readjust it upon your return to your computer. Simply put, you just can't beat the value of having a human making the judgment calls for where to replace stops.

SCALE SHIFTS

In the section where I explained the various techniques & opportunities I tended to focus on one scale (i.e. exclusively Daily candle charts). Realize that, generally speaking, most (if not all) the techniques explained can easily be modified to work for different time scales (i.e. play with 8, 4, 2 or 1 Hour candles, 30/15/10 minute candles, or even boldly trade on weekly charts). There are certain considerations to be aware of when shifting from the suggested scales; your stop sizes will be proportionally affected, and be aware that if you go to say 4 hour candles from Daily candles that you have a different effect considering not all 4 hour candles are affected by market overlap times.

Certainly feel free to play around with this, but before committing yourself to a real money trade first "back test" (by looking at your charts to see how well the setup did historically), and further test yourself with several demo trades.

Here is an important way to take advantage of a Scale Shift. Shift down a scale or two to use some trading method as a way to enter into a larger trade. Ideally you can manage to have a smaller stop requirement and possibly even increase your amount of lots traded. Either way you might potentially score a better overall trade based on the same "big" trade. In case it isn't obvious to you by now I'll simply state here that I'm a BIG advocate of trying to enter into a big trade through a small trade.

EFFECT OF WORLD NEWS

Occasionally there is huge news in the world. When devastation occurs of course we need to stop and pray for the countless lives affected by the horrendous events. After your initial prayers then run to your computer to watch how the markets react to the news. If any particular country is affected then pay attention to the currency pairs with it's currency. Some such profound events include 9/11, London bombings, and Hurricane Katrina (devastating New Orleans).

Not only do horrendous world events trigger reactions in the markets, but so do other significant events such as elections, war related events (i.e. when Saddam Hussein was captured), and freak power outages (as happened in eastern North America). I'm not talking about Fundamental Announcements (with the exception of elections), but bizarre unexpected or unanticipated events.

Generally the world reaction and the reaction of the markets won't make a drastic jump in price, but a very strong trend. This makes for some excellent trading opportunities that may last for the day or even days (depending on the nature of the event). Once the "dust settles" the market usually figures that it overreacted and often will do a gorgeous Fibonacci retracement (another nice trading opportunity on the expected retracement), however note that the market doesn't always fulfill the Fibonacci extension (depending upon the original direction of trending).

Furthermore, some events will affect other markets, so if you also trade stocks & particularly commodities (I started in commodities but now am virtually Forex exclusive) then look into the relevant ones too. (i.e. Katrina had obvious impacts on oil, but orange juice & sugar futures were also affected. Katrina will no doubt (as I'm writing this soon after it happened) have other financial effects affecting the whole US economy as a cascading effect primarily from the increased oil/gas prices. FYI, yes I did profit from Katrina, but also prayed.)

So whenever dramatic world events happen be sure to watch the market closely and trade.

SHOWING OFF

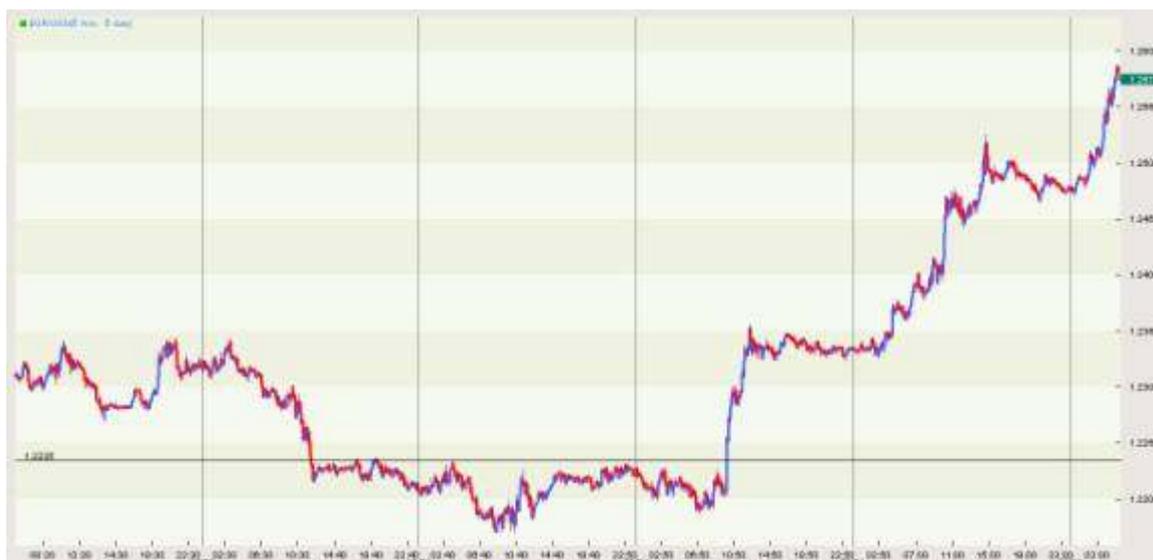
Let me show you something here that is pretty cool.



A couple of days ago I posted an “Alert” in the Resources Section about EUR/USD that showed the above chart. In a nutshell I predicted, based on a number of reasons (which I fully explained there but will omit here) that I thought the market would soon go up from where you see on this chart.



I personally got in on one of my trades on a breakout of that Teeny candle (fifth candle from the right). Teeny candles are taught elsewhere in this eBook. This Teeny candle was on an 8 hour chart.



Here is that view on a 5 minute (5 day) chart (so you can see more). Notice the roughly 48 hour long consolidation and the breakout (horizontal line). If you look again at the previous chart you'll notice that that consolidation happened at the bottom of a deep red Fibonacci retracement.

Here is a *PERFECT* example of combining different perspectives to give you “reasons” to trade, and a combination of trading methods.

I already mentioned that I got in on a trade based on an 8 hour Teeny Netless Candle (one of the methods taught in this eBook), but wait there is more... a whole lot more.

Near that bottom was a perfect time to jump in on trades based on a number of “reasons” discussed in this eBook, and combining stuff from the other eBooks. That bottom was both a deep red Fibonacci bottom with a consolidation to boot – either reason enough to get in on a trade. Here was an excellent place to do a running “Incredible Scalp”, especially since it broke out of the consolidation shooting with caffeine.

That first trading day also provided opportunities to do running scalps, and more importantly compounding gains!

As if that wasn't enough you got a gorgeous consolidation that was as easy to trade the breakout as stealing candy from a baby. Another day to add a running Incredible Scalp, and several obvious places to add trades to further compound your gains. In case you didn't notice, here the trendline (not drawn but obvious) got broken by that long 8 hour candle just before that displayed Teeny candle (that flat consolidation seen on the 5 minute charts was the 8

hour Teeny candle), and so you had another “reason” to continue with your optimistic trading. Also that consolidation was at the previous resistance level from the left side of the chart, and when it broke that resistance... well you see what happened.

At the end of that day was a slightly back slanting sloped consolidation that at the start of the next trading session again continued shooting upwards. More surfing/scalping trades possible, not to mention compounding opportunities.

One thing you should notice is that that the charts show above are real time at the time of this writing (as you can clearly see by looking at the right of the chart). Who knows what might still happen over the next few hours! This is to point out to you that I’m not “cherry picking” my examples, but am showing you stuff that is happening in “real time”... and you’ll see once you start looking at your charts that these kinds of opportunities happen regularly.

One more thing I should mention is that in a couple of hours will be the “Freaky First Friday” Non-Farm Payroll, so that is why I am cutting off this example here – because within the next couple of hours you would be sure to exit all the trades you’ve picked up over the past couple of days (though I’m sure that next week will be another rockin’ week).

HOLOGRAPHIC MINDSET

When you first learn to drive a car you study the individual elements of driving. You learn how to gas & brake, steering “hand-over-hand”, mirror-signal-shoulder-check, look for street signs, look for pedestrians, look for other cars and monitor their movements, drinking a coffee, smoking a cigarette, and talking on your cell phone... all at the same time. Each of these individual skills took you time to learn. At the beginning driving might have seemed to be somewhat overwhelming, as you had to consciously think about all the individual skills and apply them in real time. Over the years of constant use those skills became ingrained, and now when you drive a car most of the functions you perform are done subconsciously, without the effort of consciously thinking about it. As effortless a task driving a car may now seem to you, if you were to think about what you are actually doing you’d realize that you are actually doing a series of complex tasks, but those complex tasks are handled *habitually* through your subconscious mind. You have cultivated the ability to perceive the road conditions “holographically” (non-linearly taking in multiple information stimuli) and the ability to respond appropriately to whatever is presented to you.

When you start trading there are many different things to learn, and at times it may seem overwhelming when you are just learning. Realize, however, that just like the process of you learning to drive a car that over time you too will be able to trade Forex as easily as driving a car is easy for you now.

The point that I'm getting at is that you need to employ wide-angle vision to broadly see what is happening, and having mental filters to recognize the various types of opportunities that are currently available.

Here is a little tip – compose a “cheat sheet” for yourself that visually will remind you of the various things to be looking for (Maybe one day I'll create one for you).

You've spent much time learning many different technical analysis concepts. This is because you want to be able to see the opportunities holographically – meaning that you see multiple reasons and understand what is going on from a “bigger picture” perspective. Many traders operate from a “flat” perspective, only seeing the single event / opportunity before them, but once you transition to thinking about trading holographically then you'll find a new dimension to trading, and your skills and success as a trader will certainly improve.

With practice you will get better and better at spotting the opportunities until it becomes second nature for you... much like the process of learning to drive a car was, but is now easy.

One more thing – I didn't share with you *everything* through my eBooks & training materials. It's not that I'm withholding information from you; there is much more to learn, but you'll get it from your own experiences. Any course, of any subject, can only hope to convey to you some of those most important concepts and act as a finger to point you in the right direction to continue your learning about that subject. Over time, as you integrate the techniques that I taught you (and any other Forex teacher's material that you may have also studied) **you'll begin to see correlations between concepts and techniques that no one has explained to you before**. There are many nuances to techniques and methodologies that are impossible to teach for various reasons. I can't teach you to view your trading holographically, but once you've integrated all the teachings I've presented to you then you'll have to cultivate that perceptual ability through your own practice. I encourage you to continue your studies & practice, by reading more relevant materials, but more so by studying your charts (as I keep emphasizing) and reviewing

trading opportunities (those that you traded and those that you missed). Today you are a master at driving a car (or so I & others on the road would hope), and with time you'll be equally proficient at trading (which is a worthwhile goal).

SO LONG!

Whew! We got to the end of this eBook! I have to say congratulations to you for getting this far. Believe it or not by now you've read many hundreds of pages of text (close to a thousand counting the other eBooks). When you were in school (High School, College, University, whatever) I'd bet you never read a textbook cover to cover. Guess what, you just did (assuming you first read all the other eBooks in the Rapid Forex package like you were supposed to). So go out and celebrate! Remember to always take pride and celebrate your personal accomplishments (if you don't then who will?).

I have to admit that I am personally exhausted right now from writing; having just done over 300 pages of text in Microsoft Word (8.5" X 11") which is roughly equivalent to about 500 pages of regular book text in just 30 days. This was a work of passion; I did what I love. Now I'm just about ready to fall over.

I am sure you've learned a lot from having read all the eBooks, and I really hope that you've absorbed the information. Remember that wisdom is the blend of knowledge and experience, so study your charts and keep practicing the techniques you've learned in your trading; you can be richly rewarded if you do.

Regardless of whether your objective as a trader is to dabble a little or to be a serious pro making some awesome coin, I hope that you'll trade Forex as a hobby. By this I don't mean to not take it seriously or treat it as a business, which of course I encourage you to do, but rather I mean that you trade because you enjoy doing so. I believe that Forex trading offers many of the personal rewards that many other hobbies provide, however unlike most other "hobbies" that cost you money, Forex can make you money, and it can offer (at times) the same adrenaline rush as bungee jumping, sky diving, or stamp collecting (joke). I wish for you to grow to love it, if for no other reason than to apply the cliché "*do what you love & money will follow*".

I titled this farewell section “So Long!” as it is a way of saying good buy (pun intended), wishing you well on many long (in duration) sailing trades. May your sails be filled with wind as you journey (financially) over the horizons!

Anyhow, I’m off now to another horizon, to Hawaii, for a little R&R practicing some Surfing (this time not the Forex kind). After catching a little sun I’ll be ready to shine for you again – I’m working on creating something awesome for you... but I’ll tell you about it later.

May you experience extraordinary success as a Forex trader and in all areas of your life. So Long!

Robert Borowski

P.S. Now that you’ve read this eBook in it’s entirety once go back and reread it slowly. If there were areas that confused you in the first reading you’ll find that a second reading will clarify some of those topics in your mind, especially now that you have at least read all the concepts in this eBook (so you can start piecing together the holographic elements in your mind). Good luck & have fun!

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