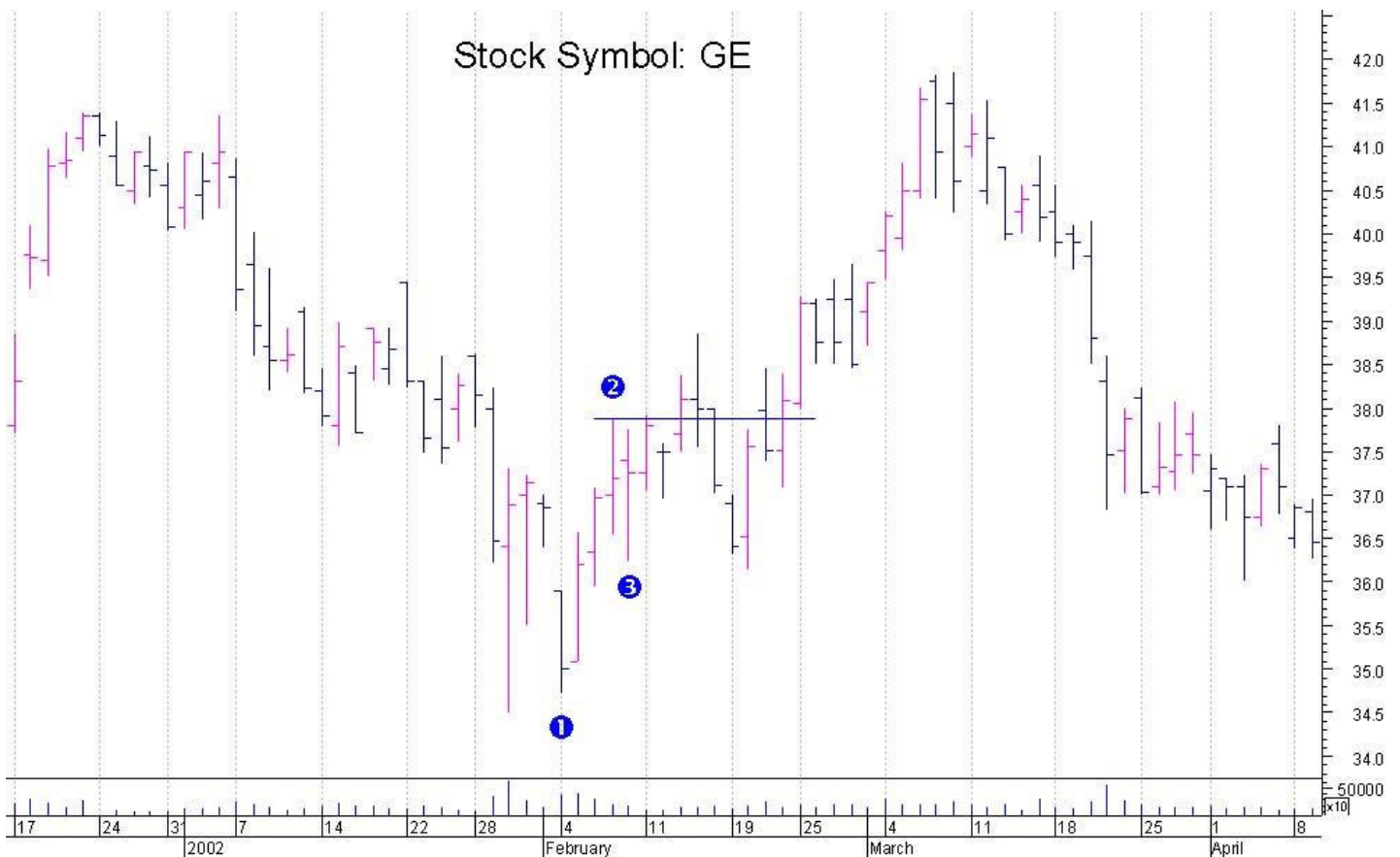


Chapter 1:

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What is a 1-2-3 Pattern?

Good question. A 1-2-3 is simply best explained by looking at some charts. It's really simple when I throw up a few charts and take it from there. Here are some recent stock charts.



Above is simply a daily bar chart of the stock of the big blue chip US stock General Electric. Stock symbol GE.

Clearly marked is the 1-2-3 pattern that evolved in February. Simply put it is a 1-2-3 buy pattern.

It's a bottom, a correction, a retest that does not go beyond the original bottom, and then a rebound beyond the correction. Phew.... That was a mouthful. But it is VERY simple when you look at the chart.

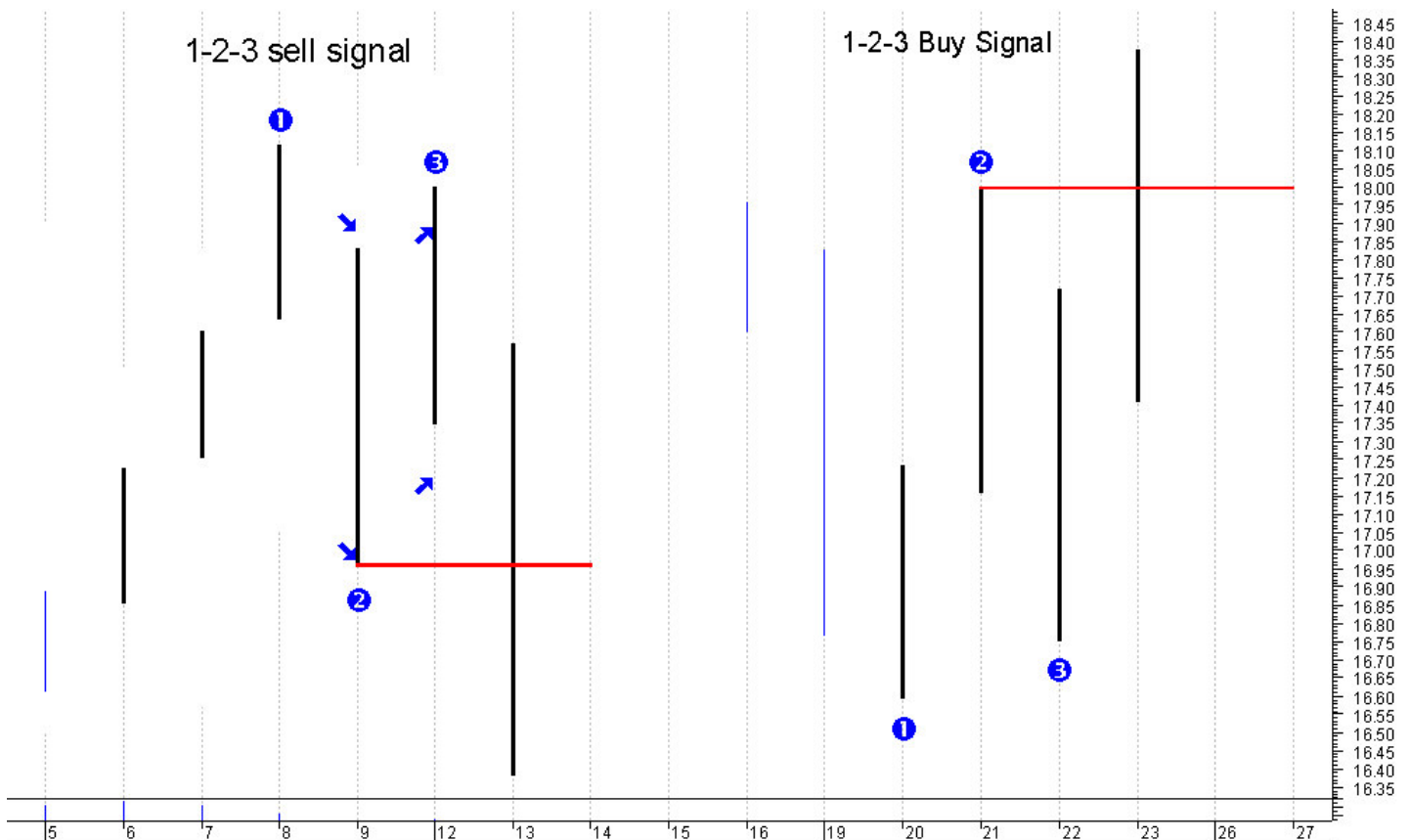
Point 1: This is the bottom.

Point 2: This is the correction

Point 3: This is the retest the DOES NOT GO BEYOND point 1. If it does then all bets are off. The pattern does not exist. Scratch it off and move on.

Once you have a valid 1-2-3 pattern then place your buy order in at the ***breakout** of the number two point on the pattern.

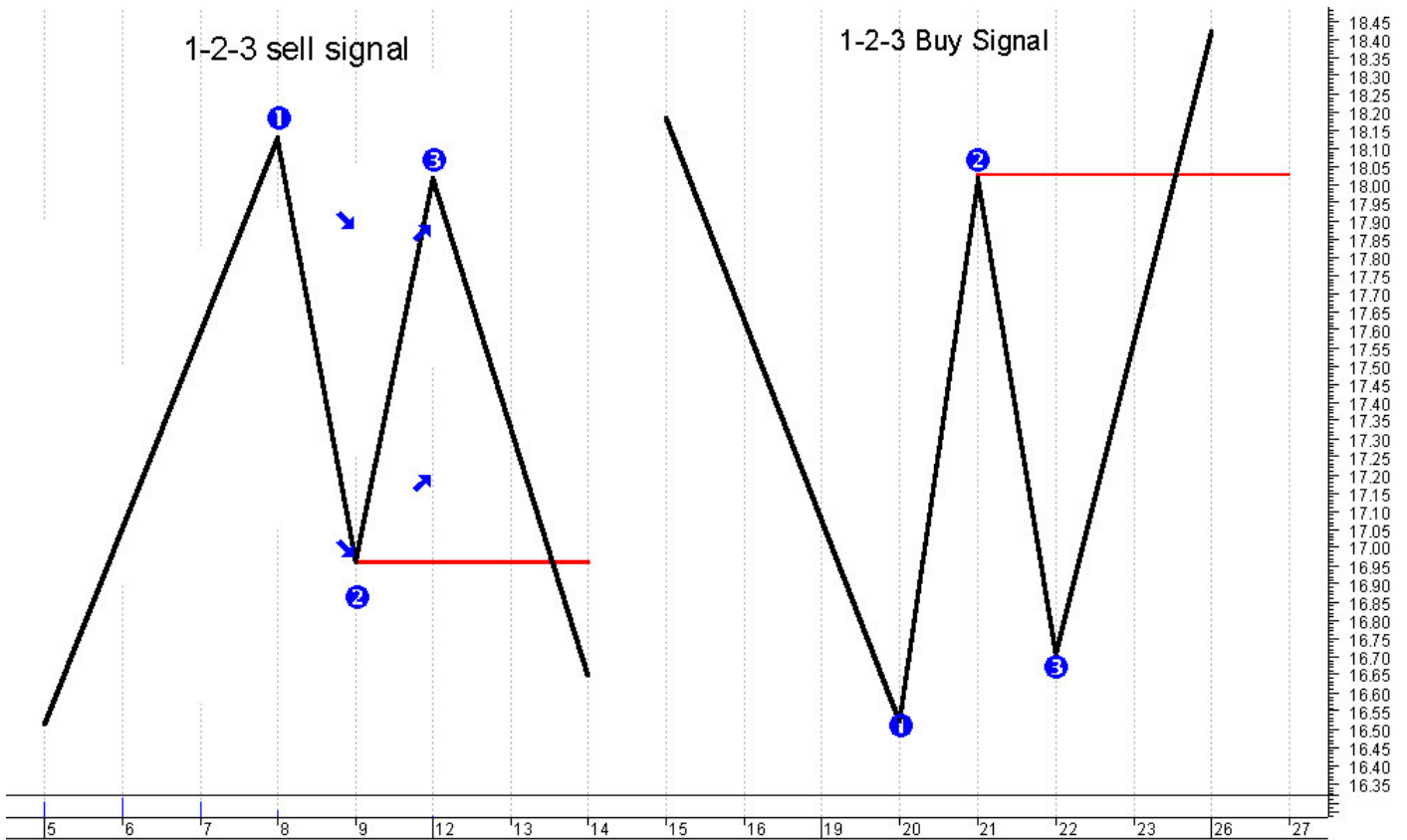
Honestly, it is a **VERY SIMPLE** pattern that always give lots of opportunity and a great risk/reward ratio. Once you grasp the fundamental basics and practice you will see them all over the place.



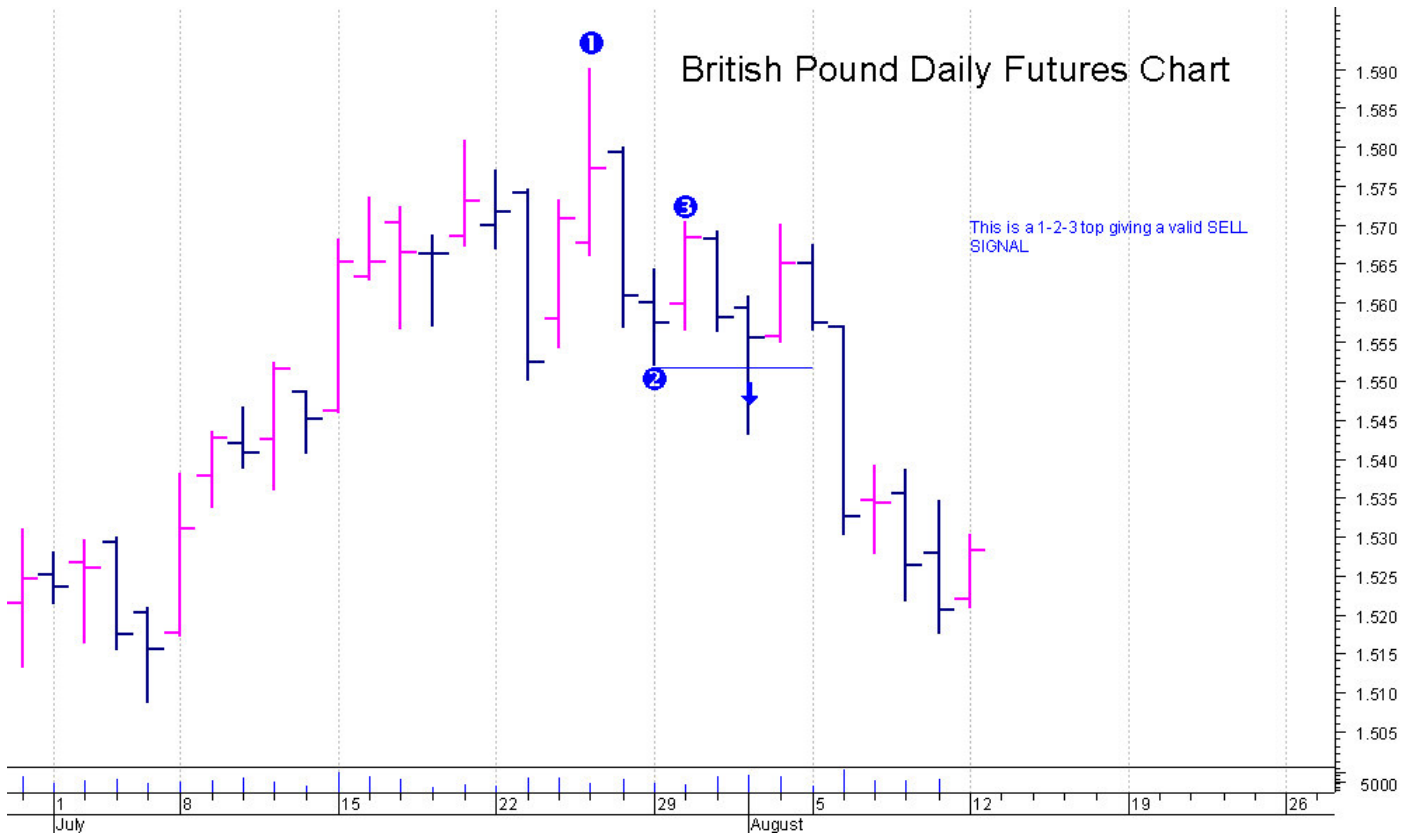
Here is an exercise to perform now.

- Get a blank piece of paper and a pen/pencil.
- Starting at the top left hand corner draw a diagonal line to the center of the page.
- Where you stop mark this with a **BIG NUMBER 1**.
- Now from this point draw another diagonal line towards the top right hand corner but only go about half way up.
- Mark this point with a **BIG NUMBER 2**.
- Draw a diagonal line from the number 2 point, parallel to the first line, down towards the bottom right hand corner. **BUT DO NOT GO ANYWHERE NEAR AS FAR DOWN AS YOUR NUMBER ONE POINT**. This line should be your shortest one. Make it about half the length of your number 2 line.
- Mark this point with a **BIG NUMBER 3**.
- Now you have a zig-zag pattern, marked clearly as a 1-2-3. Now draw a flat, horizontal line right on top of the number two point. On top of this line write: **BUY HERE!**
- Now imagine this is a stock you have been observing and it has formed a 1-2-3 bottom. **IF THAT HORIZONTAL LINE** across the number two is taken out then you have a valid buy.
- For a 1-2-3 topping formation that gives a valid sell signal simply reverse the whole procedure.
- Practice, practice and practice some more until the pattern is firmly fixed in your mind. It takes a little time and effort to grasp the pattern but it is like riding a bike, when you get it right, you will never have to learn it again.

(This is how your drawing should have looked)



Let us have a look at a few more examples.



Now knowing what you do about the 1-2-3 signal can you spot how many valid 1-2-3 buy and sell signals are present on this daily bar chart of General Electric? (there are twelve) It may be difficult for you to spot them on this shrunken down version... that is not the most important point. The point is I wanted to show you how amazingly consistent this pattern is.

Have a look.



OK. That's chapter one completed. Practice drawing 1-2-3's and looking for them on your favourite stocks and futures markets. They happen all the time and are about 70% accurate in the price prediction. Let's look at different charts and time frames with 1-2-3 signals.

* This is not 100% true. I'll explain why in chapter four

Chapter 2:

The 1-2-3 Trading System

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What Charts/Time Frames Do 1-2-3 Signals Exist In?

OK to quickly recap this is what a valid 1-2-3 signal looks like on a bar chart. This is a PERFECTLY FORMED 1-2-3 signal. But as we all know we do not live in a perfect world, especially when it comes to looking at stock charts.

