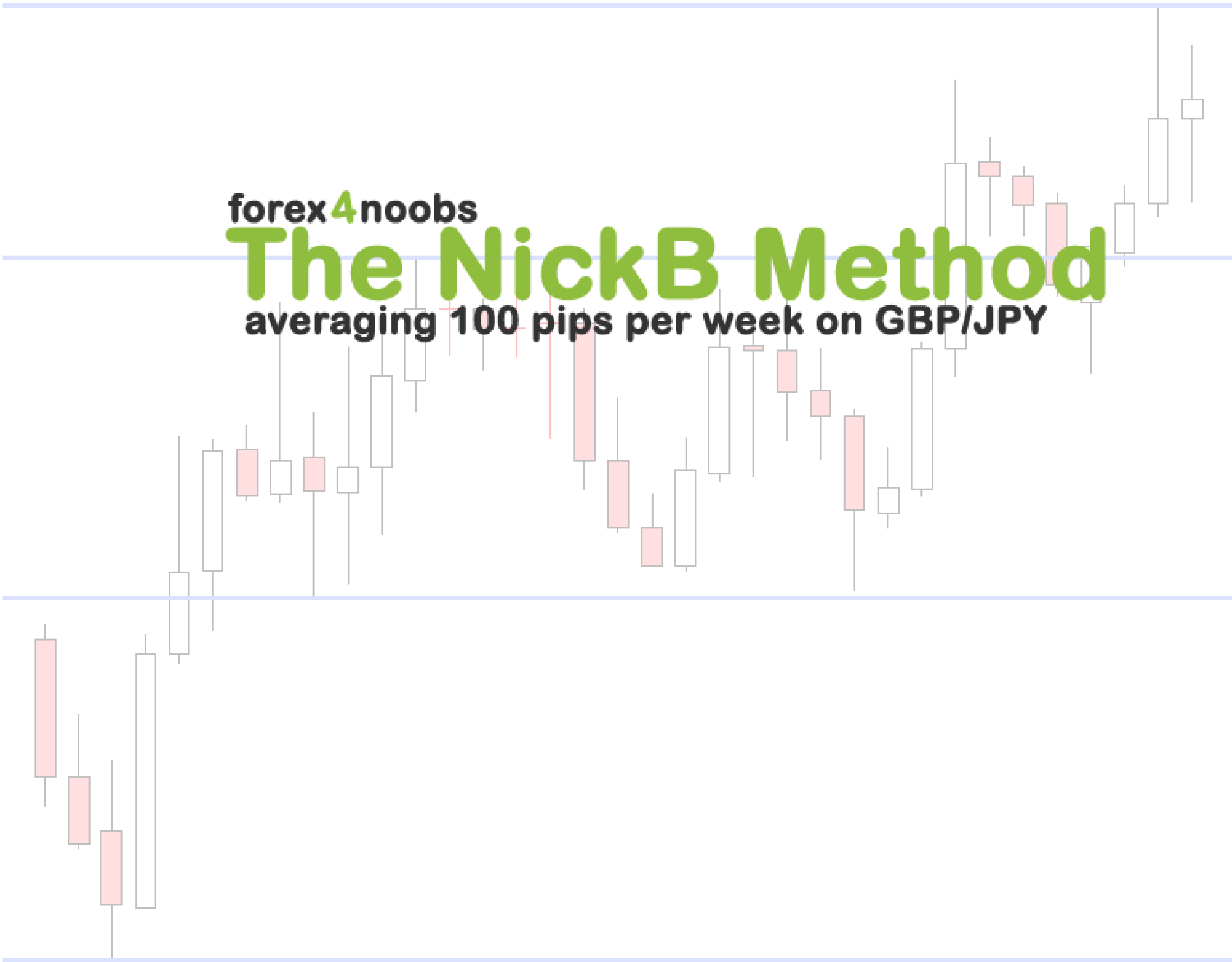
forex4noobs

The NickB Method

averaging 100 pips per week on GBP/JPY



Disclaimer

Forex trading has large potential rewards, but also large potential risk. You must be aware of the risks and be willing to accept them in order to invest in the Forex market. Do not trade with money you cannot afford to lose. No representation is being made that any account will or is likely to achieve profits or losses similar to those discussed in this book. The past performance of any trading system or methodology is not necessarily indicative of future results.

NOT FOR SALE

This ebook is not currently for sale nor will/has it ever been for sale. This ebook is completely free, if anybody has sold this book to you please email me at nick@forex4noobs.com.

Chapter 1:
Introduction

Ground rule

What I am about to say may sound a little selfish, but I can live with that. I am not writing this ebook for you; I am writing it for me. I am unable to offer personal help to every single trader who emails me. It just is not possible. I would love to be able to help everyone, but with the 50+ emails I get per day I cannot. I do enjoy though helping other traders achieve the same level of success I have experienced, but the problem I find is that I am consistently bombarded with the same questions.

So let's set an important ground rule that will help all of us, together.

If after reading this book you still have questions about how I trade, ask them in the forum. Chances are that there are 20 other traders wanting to ask the same question, so instead of sending me an email, just ask your question in the forum. This will allow everyone with the same question to read the answer there. This takes so much pressure off of me, and uses the forum as it was designed to be used. So, please, ask your question in the forum first.

About Forex4noobs

If you are reading this book you are probably new to Forex4noobs.com so in the next few paragraphs I will briefly go through some of the basics of the website. One of the most important features of Forex4noobs is the free Forex chat room. Learning how to trade is much easier in a group. The Forex chat room is full of serious traders all with the same goal —to make pips. The best time to be in the chat room is the London session. I am usually in the room during this time along with another 50 traders.

If you are new to Forex4noobs, and new to my trading method, please check out the 'New to forex4oobs?' forum section. There you will find everything you need to know about Forex4noobs, and there is a host of extra information on my trading method. You should also check out the GBP/JPY analysis thread. Traders who use my method discuss upcoming GBP/JPY trades on a daily basis. So if you are a little unsure about taking a trade you can ask and discuss the trade in the GBP/JPY analysis thread.

You should also check out my free signals blog. Every Sunday, on the blog, I release my weekly GBP/JPY signals and analysis video. The signals are based on the method contained in this book. Since the blog started, we have been averaging 100 pips per week. If you are using my method, the blog analysis is important, you can compare it to your own analysis and see if you are on the right track.

There is much to learn at Forex4noobs. It's a large site, so spend some time exploring it. You won't be sorry!

Chapter 2:
About My Trading Method

About my trading method

In the world of Forex trading most traders are continuously searching for the holy grail of systems that will make them a millionaire in a week. Like the search for the Fountain of Youth that system has never been found. Here is a hint why; **IT DOESN'T EXIST!**

Searching through forums like a crazy person looking for the magic combination of indicators is the short road to failure. If you are reading this e-Book looking for a system to make you an instant millionaire then hit that little red 'X' right now. If you are reading this eBook looking for a method of trading that will make you a successful, consistently profitable trader, then keep reading. Trading is not a get rich quick scheme; it takes hard work and dedication.

My method is not a system, I do not use any indicators, and there are hardly any set-in-stone rules. My method is based on candle patterns and support and resistance lines. These are not to be confused with pivot points or Fibonacci lines. The best thing about my trading method is you are not tied down to one specific style. You can implement certain aspect of it, and add others, to tailor make your own trading style.

I know that not using indicators sounds crazy, but I have been doing it for 4 years and I am still around. It is up to you to make the choice. Are you going to embark on the futile search for the Holy Grail trading system? Or, are you going to learn how to really trade?

Keep it simple

The foundation of my method is to keep things simple. I am against over complicating trading. In my opinion, the simpler your method is, the more effective you will be. Making something extremely complicated is only going to waste time and add stress. That is why I try to keep my trading as simple as possible. Over complicating something that works very well is counterproductive. All I need are a few lines on my chart and I can make 100+ pips per week with ease.

Some methods you see are just a mess of indicators; so many that you can barely see the candles. This is not the way to trade. If you can be consistently profitable keeping it simple, with just a few lines, then that is obviously the better option. So as you read on, and find out that my method is just a few simple lines, do not run away. These simple lines have been making me a lot of money consistently for 4 years. That is more than can be said for 99% of the trading methods out there. Simplicity is a good thing, not a bad thing.

Adaptability

Another foundation of my method is adaptability.

A system is limited in that it gives you a very constrained method of trading. You have rules that are set in stone, and they do not change when the market changes. Thus, a system works amazingly well some months during the year, and fails miserably other months.

I do not have a system. I have a method based on the analysis of candle patterns and support and resistance lines. The most important thing about my method is that it adapts to changing markets. A huge part of my trading is analyzing current market conditions and trading accordingly. This may sound hard, but when you learn the basics it becomes second nature. One look at your charts and you will know that you need to tweak the way you traded last week to suit the market this week.

Candles are perfect because in any market condition they still perform the same task, they show you price action. Support and resistance lines are basically just showing us where the price action is stalling and where the market is shifting direction.

Anyway, what I am getting at is that I do not have a system. I can't simply say, “You put lines here and enter on crosses”, or, “You target 100 pips every time.”

I target about 70 pips on a normal GBP/JPY trade. In a very volatile market I start to target up to 100 pips. That is a very simple way of adapting to changing conditions. There is definitely more to it than that but you need to understand I do not have a system that can be summed up in a few paragraphs. The method gathers together a hundred different aspects to form an extremely effective and adaptable style of trading. It is something that will take you time to learn.

Scouring forums for Holy Grail systems is not your answer. Like I said, systems are limited to the market conditions that spawned them. Systems do not adapt to changing market conditions. There is a tool however that allows traders to adapt to changing market conditions.

Can anybody guess what it is? It is your brain!

Those new to Forex trading, who have spent time on multiple forex websites, expect me to have some kind of generic, crappy, enter-when-this-crosses-that system. The reason they expect that is because that is usually what is offered. This is not what I am offering you. I expect you to be an active participant in trading; using your mind, and making good trading decisions.

My system involves the use of your brain (every trader has one), and that is why after 4 years, my method is still profitable.

Chapter 3:
The Basic Technical Stuff

The Basics

Pairs: GBP/JPY, if you have not discovered this amazing pair yet you are missing out.

Time frame: I use 4 hour charts, and only 4 hour charts.

Alarms: If your current trading platform does not have price alarms then you need to find a new one. Since I trade 4 hour charts, price alarms are essential. You need to set alarms and be prepared to trade when the price reaches a certain level.

The Tools I Use

I use a combination of candlestick patterns, support and resistance lines, and price action. As you can see, I have not mentioned any indicators because I do not use them. My trading is all about following the actual price and not indicators. In the next few pages I am going to explain candles, S/R lines, and price action in detail, and then I will explain how to use them all together.

Candlestick Patterns

People underestimate the power of being able to read candlestick patterns. Candlesticks tell you exactly what's going on with the market.

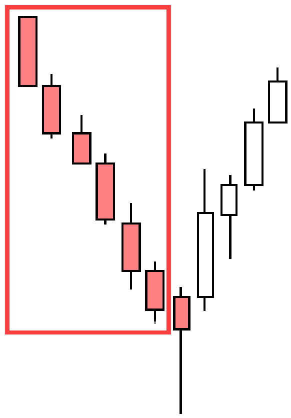
A bullish candle tells you that the bulls are currently in control. A bearish candle tells you the bears are currently in control. A doji candle tells you that the bears and bulls are fighting, but neither one is winning.

So, when you get a doji forming after a series of strong bullish candles what does that tell you? The bulls were in control of the market, but now the doji shows that the bears are fighting back. The bears and bulls are opposing forces and they are always trying to pull the price in their direction. Sometimes the bulls have more power and it goes up, other times the bears have more power and the price goes down. So every time you look at a candle you should think of it as a struggle between the bulls and the bears.

Long Wicked Candle Patterns (LWP's)
Long wicked patterns are, in my opinion, the strongest type of reversal pattern. They are not simply doji's, hammers, or shooting stars. LWP's are the combination of several different factors that make for a very strong reversal sign. Let's dissect the two most important parts of a LWP.

Preceding trend
The preceding trend is the most important part of the long wicked pattern. If there is no preceding trend it is not a LWP. Identifying a preceding trend is not hard, but it is also not a science. I can't tell you "a trend is exactly 100 pips," because a trend is dependent on current market conditions and, obviously, the pair you are trading. I know it is a little hard when you do not have an exact rule to follow, but with just a little practice you will be able to spot trends with ease. I describe a

preceding trend as a series of 4 or more candles moving strongly in the same direction. The preceding trend is important because it shows that either the bulls or the bears are currently in power. In the picture below the preceding trend is shown in the red box.

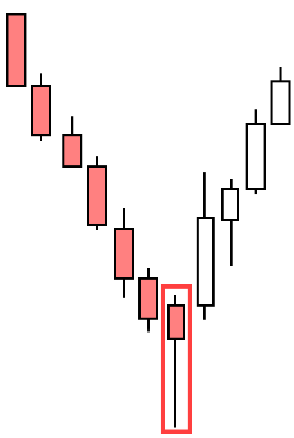


Reversal pattern

The actual reversal pattern is what screams out to us, "the bulls/bears are losing power!", and tells us the price might be turning around. The long wicked pattern is also very simple to identify:

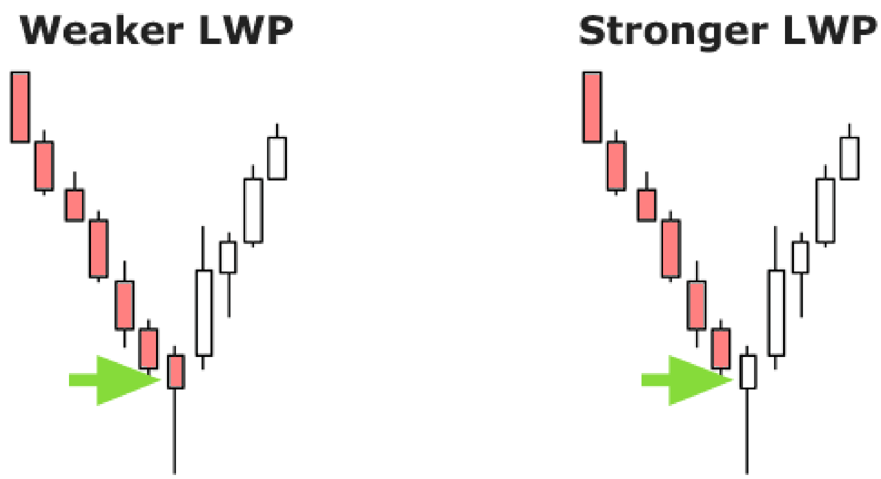
1. The wick must be longer than the body of the candle.
2. The wick must be pointing in the same direction as the preceding trend.

The reversal pattern alone is not a LWP. It is the combination of the preceding trend, and the reversal pattern that make an LWP. In the picture below the reversal pattern is shown in the red box.



If we put these two features together what does it mean? Previously I said that each candle represents a struggle between the bulls and the bears. So if you think about it, a bearish trend LWP (the above picture) means that the bears were much stronger than the bulls and they were able to push the price down in a bearish trend for a while. Then, all of a sudden the bulls stepped in and pushed the candle back up forming a reversal pattern. So obviously we are seeing that the bears no longer have more power than the bulls and the bulls are fighting back.

Another important feature to take note of in the reversal pattern is the body. If the body is opposite to the preceding trend that makes it a stronger LWP. Again, using a bearish trend LWP as an example, if the body of the reversal candle is bullish it indicates that the bulls have more power. If the body is bearish, it is still an LWP, just weaker. Regardless, it is still tradable, just exercise a little more caution (using your brain) since it suggests that the bears are still fighting back.

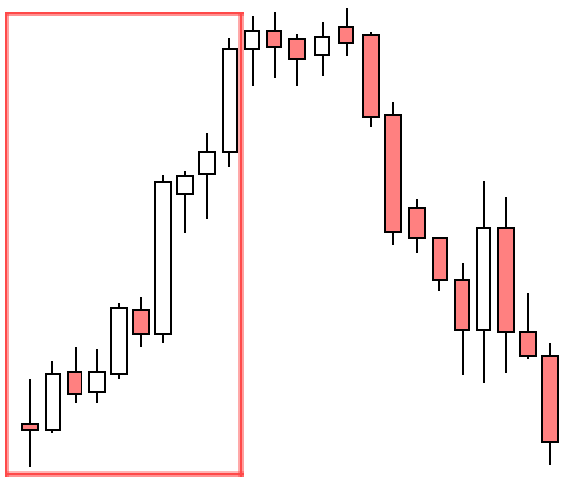


It is stronger simply because the reversal candle itself closes bullish, and it indicates that the bulls have a lot of power. The weaker LWP shows that the bulls reversed the trend, but the candle itself still closed bearish. This indicates that the bears are fighting back.

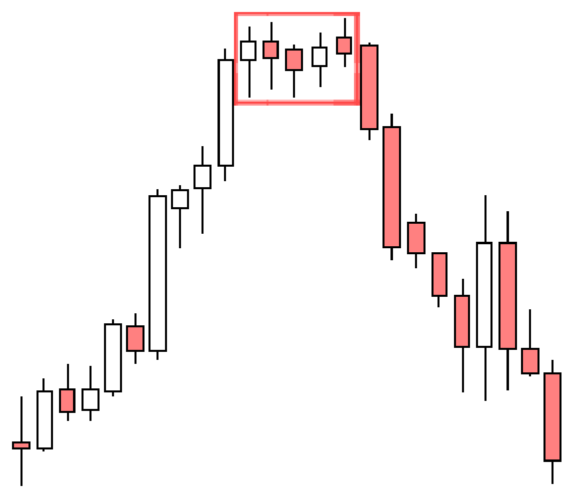
So remember, a LWP is not just the reversal candle. It is the preceding trend plus the reversal candle. Without a preceding trend, it is not an LWP. It is just a reversal candle.

Grouping Patterns (GP's)
A GP is a large grouping of reversal type candle patterns in a trend. Again GP's have two main features so let's dissect a GP, and talk a little about each feature.

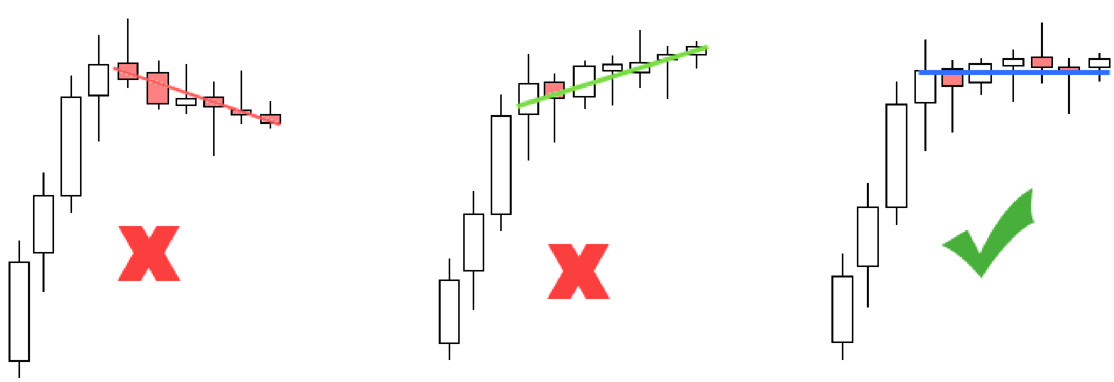
GP Preceding Trend
There isn't too much to say here. The preceding trend is nearly the same as that of a LWP's preceding trend. The main difference with GP's is that I look for a larger trend. I still trade them based off of smaller trends, but they are definitely more powerful when they form in very large and long running trends.



Reversal Candle Grouping: There must be at the very least, five reversal candles before I would consider it a GP. Five candles is the minimum. I would much rather see six or more. Generally speaking, the more reversal candles the stronger the GP.



The grouping itself must not favor any direction. It must basically form a straight line. Now this does not mean it must be perfectly straight, it can move slightly up and then come slightly back down. It is just important that it does not have an obvious bias for any direction.



The strength of a GP is dependent on the amount of candles in the grouping and the preceding trend. If you have a very strong preceding trend that consists of many candles and the grouping itself has 6 or more candles you can consider it a strong GP. You can also judge strength based on other factors like where it forms, but I will explain that a little later.

Support and Resistance Lines (S+R lines)

What Are S/R Lines?

S+R lines are points at which the price finds a permanent or temporary barrier. What we are interested in are these temporary barriers. The S+R lines on all currency pairs have been around for decades. If you look back in your charts to the 1980s you will find that the same S+R lines that worked back then are still valid today.

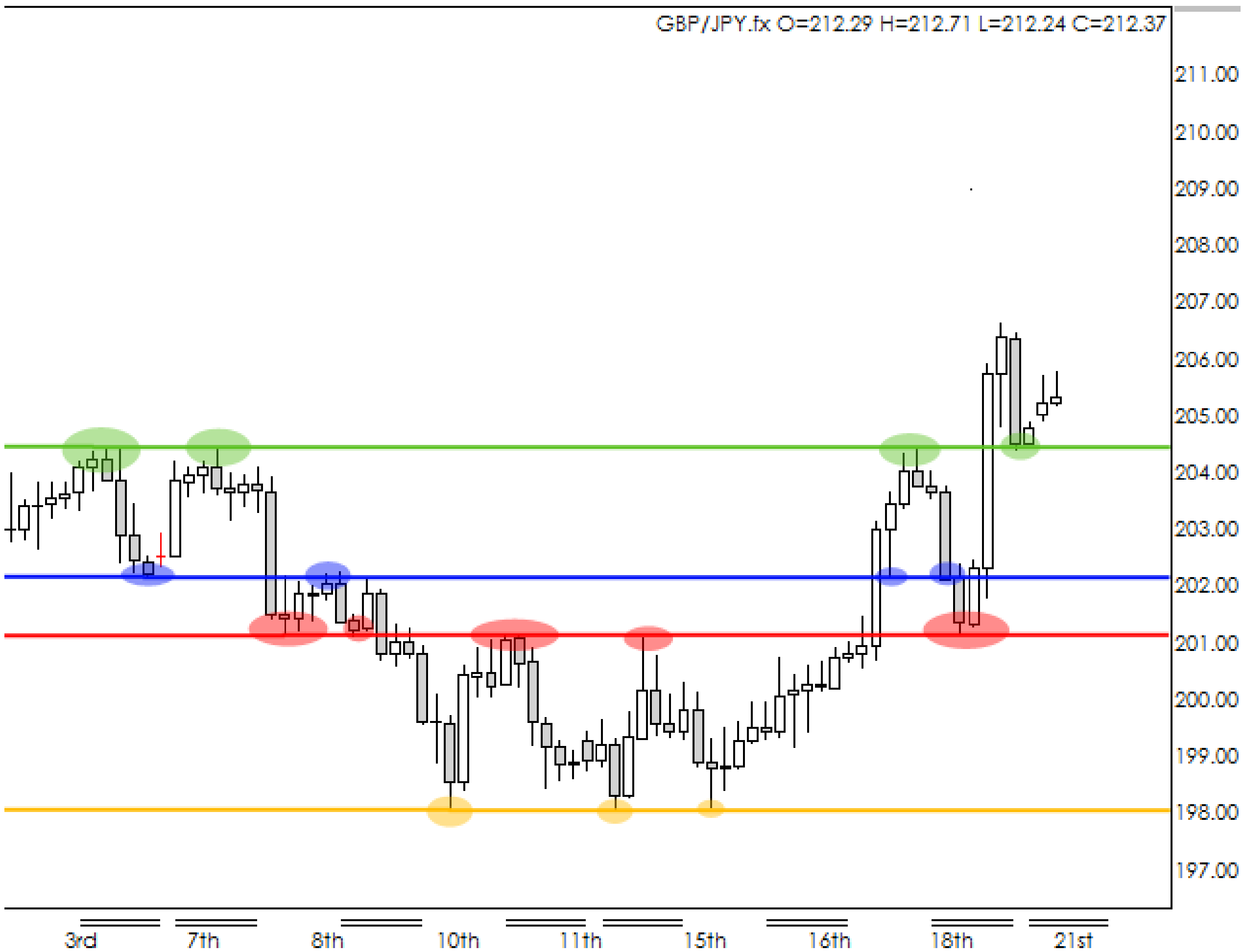
So what exactly is an S+R line, and why would the price magically stop at some seemingly arbitrary horizontal line? Simply put, S+R lines are areas traders expect the price to have trouble getting through. The line only works because a long time ago the price happened to bounce away from it strongly. Therefore, the next time it reached that same price level, traders regarded it as a break opportunity or a price reversal level, and then traded accordingly. In other words, they thought, "The price bounced away from this line the last time. It might bounce away from it again, so I should be careful." The more this happened the stronger the lines became, and now they are commonly viewed as areas at which the price will have trouble getting through.

How I use these lines
The basic idea of my method is to place these lines, and wait for the price to reach them. When the S+R line is reached, if it is broken, I expect the price to keep moving in the direction of the break. If instead, when it is reached, we start to see reversal patterns like LWP's or GP's form, I trade a reversal from the line. As I stated at the beginning of this e-Book, I like to keep it simple. You can now see that the foundation of my method is very simple, but is also very effective.

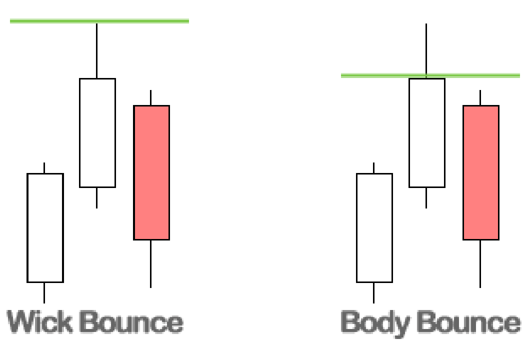
Placing S+R lines

Placing support and resistance lines is an art not a science. It will never be a science as long as humans are trading. Support and resistance lines are one of the most basic aspects to trading. Every trader uses them in one way or another. Each currency pair has highs and lows to which traders pay attention. As you develop your skill at placing S/R lines, you will need to be able to spot the price lines that would be most common to most traders. This is only done by practice and actively trading. Below is a basic outline of how I pick out my S+R lines. Keep in mind that there is a consistency to S+R lines; therefore, you do not have to pick them every week.

There first thing I do when placing S+R lines on a bare chart is identify recent areas of support and resistance.



This is a very simple process. You just place a line at points at which the price has recently shown support and resistance. Typically you would look for three or more bounces from the same line. An ideal scenario would have the wick of the candle hitting the line, though; it is acceptable to use the candle's body to place a line even if the wick has moved beyond the line. Even though the candle body is significant you cannot place a line based solely off of candle body bounces. The primary focus should be on the wick.



The next step is to scroll back through your charts and confirm the lines you have placed. Are they historically significant? By historically significant I simply mean that over the past few years has the price bounced away exactly from or near that line? You should be able to see a few bounces just about every time the price is in the area of that line. I usually go back about five years. You do not want to pick too many lines. You are only looking for the strongest ones. GBP/JPY lines should be a minimum of 100 pips apart. You do not need a line every 100 pips. Place lines only where you find them. In certain areas on my GBP/JPY chart I have about 250 pips between lines, so do not be afraid of large distances between lines. If you start placing weak lines to fill in gaps you will likely start taking bad trades based on those lines. Remember, you want lines that the most traders will observing as valid S/R lines.

There isn't much more to say about the process of placing lines. It may seem like a daunting task at first, but with practice you will find that it is extremely easy. If you need reassurance, post your lines in the forum and ask more experienced traders to give you some guidance.

Line Migration

You should also be aware that lines tend to migrate slightly over the course of a few months. They will move 30 pips up, then 30 pips down, so be ready to tweak your lines as time passes. Line migration occurs because occasionally a candle breaks past a line and then reverses, leaving a small wick 10-30 pips beyond the line. The next time the price reaches that level it bounces away from the new high formed by that wick. After a few bounces you will find that the price is more likely to bounce from the new level as opposed to the original S+R line. All you need to do is move your line to the new level, and use that new level as the S+R level.

How long do they last?

The same S+R lines have been around for decades. After you place them on a chart and get them right, all you need to do is adjust them to account for line migration. Other than that, your S+R lines should always remain pretty much at the same levels. Sometimes an S+R zone forms on a line. (I'll explain S+R zones in the next section). When that S+R zone eventually becomes obsolete, it can form a new line and eliminate the original one. This however is rare, and when it does happen it is unlikely the original S+R will move more than 50 pips.

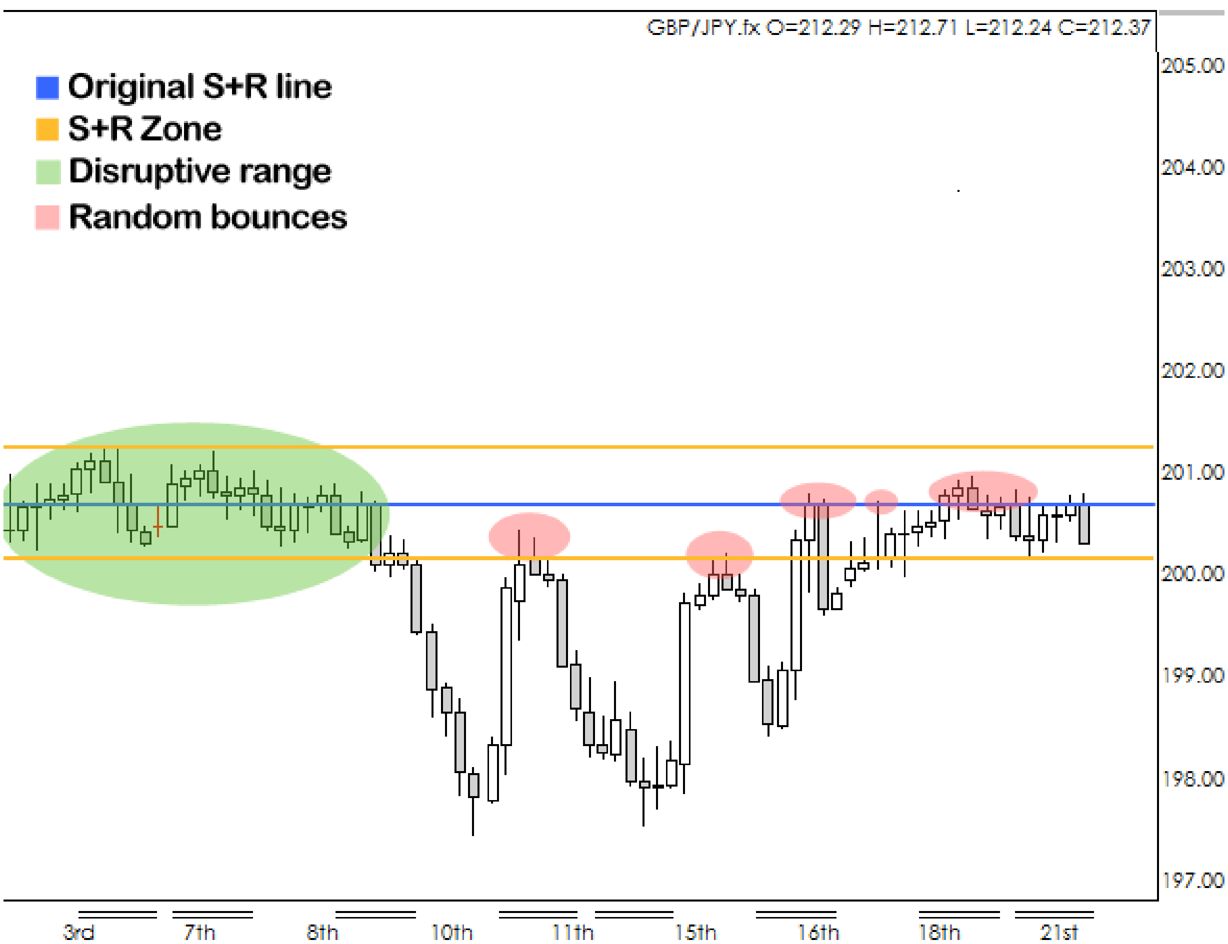
S+R Zones

What Are S+R Zones?

S+R zones are areas of around 50-100 pips in which the price tends to range. S+R zones are usually formed by tight ranging periods near an S+R line. The price ranges at the line for so long that the S+R line becomes useless, and a zone forms in the area the S+R line was in. Think about it as a disruption of the S+R line. After the S+R line is disrupted it can take a few weeks, or even a few months for it to return to normal. You will find that when the price approaches that area it will get sucked into a range, or it will bounce away from the area randomly. An S+R zone is no-man's-land, and I rarely, if ever, take a trade at or near one of these zones. I simply wait for the line to return to it's normal state.

How I place them

It's very simple to spot an S+R zone. You will find that after the price ranges on or near an S+R line the line no longer holds the price back very well. You will see the price bouncing away randomly near the line and getting caught in ranges near the line. Keep in mind, S+R zones are rare, and just because you get some ranging here and there does not automatically mean it is an S+R zone.



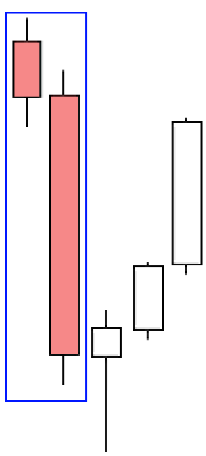
As you can see in the picture above, we have the original S+R line in blue, and in green, the range that disrupted that line. After that, we see random reversals highlighted in red. If these random reversals do not average out quickly (1-2 weeks), and pick a single point to bounce from, I mark the area as an S+R zone. The zone is simply there to say, "The price will probably act erratically in this area, so stay out of the market." Eventually, the zone will form into a single line, usually returning to the original line, or at least very close to it.

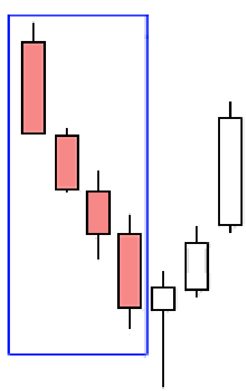
Scalp Lines

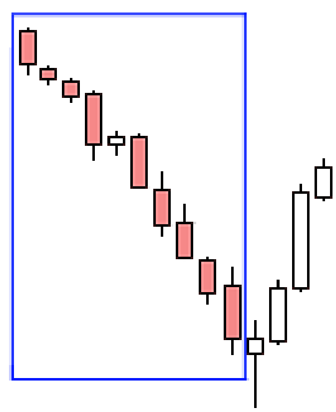
What Are Scalp Lines?

Scalp lines are temporary areas of support and resistance. As I have already explained, an S+R line needs to have a lot of history behind it to be useable. A scalp line does not need this same history. Scalp lines are formed by a single, sudden, sharp reversal. If a candle, for any reason, moves to, and then bounces away from a certain point, that point becomes a scalp line. Scalp lines can be used to take 4hr chart scalp trades. A good scalp line will have three essential parts, if a scalp line does not have these three parts I will likely not use it.

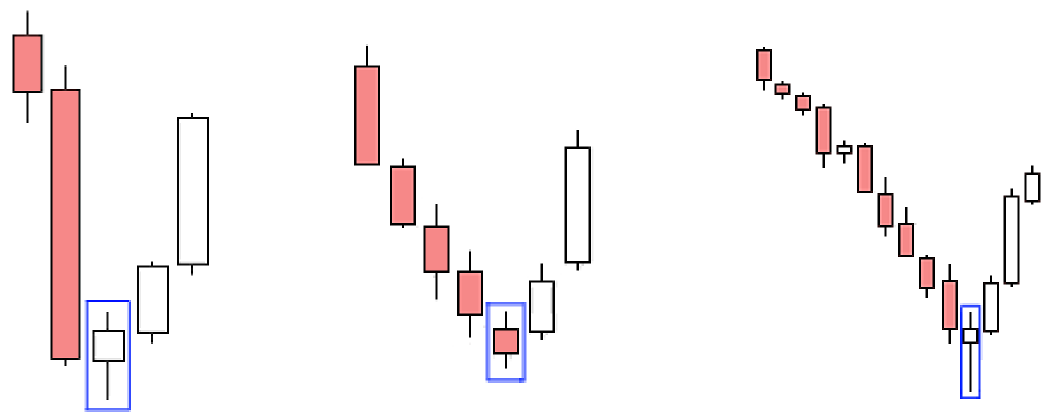
Preceding trend: The preceding trend required for a scalp line formation can be as short as a single candle, a single candle would however make for a weak scalp line. Ideally you would want to see a nice strong trend of four or more candles. The bigger and stronger the preceding trend the stronger the scalp line is. In the pics below the preceding trend is show in the blue box.



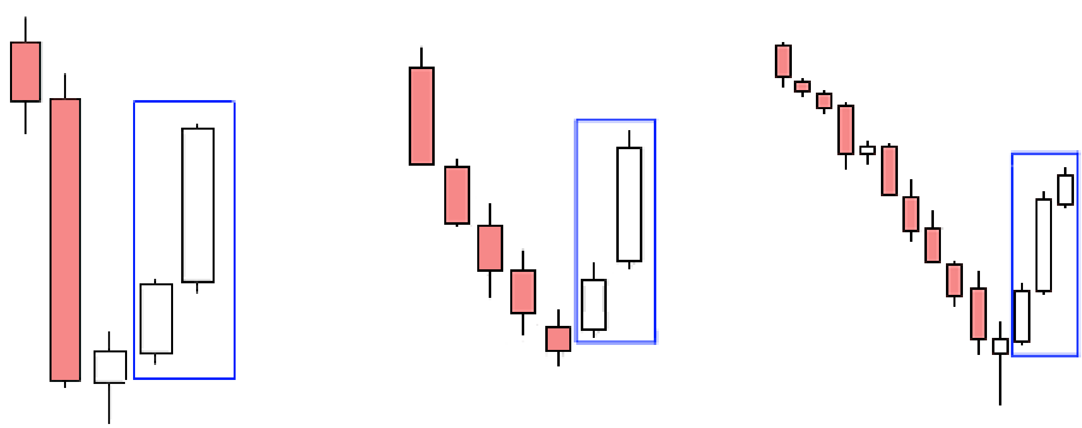




Bounce Candle: The bounce candle is the lowest point, it does not have to be a reversal candle it is just the lowest point of the trend.



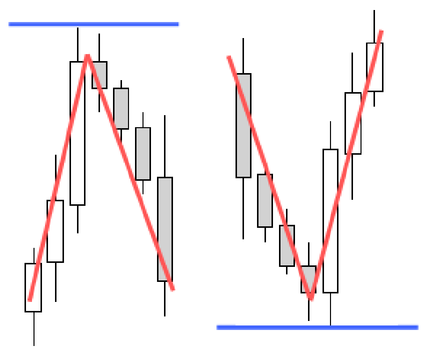
Reversal trend: The reversal trend confirms that the point at which the bounce candle stopped has some strength. If there is no reversal it is hard to say that it is a valid scalp line since



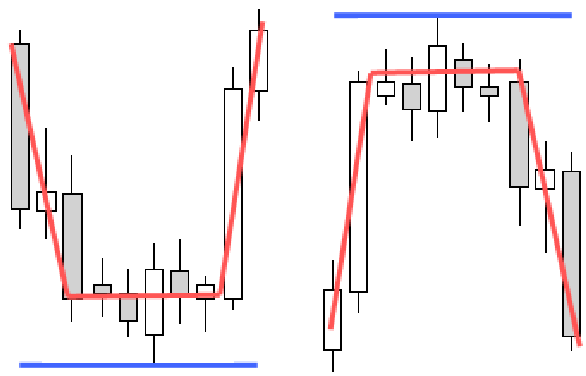
How I place them

Scalp lines are even easier to place than S+R lines. Just about every week you are going to see the price bounce away from random places on the chart. This can be caused by news releases, CB intervention, or other various reasons. All you need to do is identify these bounces and place a line there. Next time the price reaches that level and breaks that line a trade is entered. There are two main types of scalp line formations, and a third weaker type of formation.

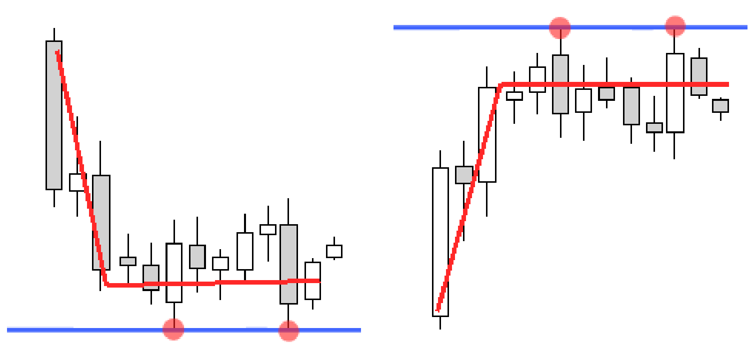
'V' shaped bounce: To be more accurate, the 'V' shape can also be an upside down 'V'. This is the best type of formation as it shows a very sharp and quick bounce.



'U' shaped bounce: The 'U' shaped bounce looks like the graphic you see below. It can vary a little, but it remains generally the same.



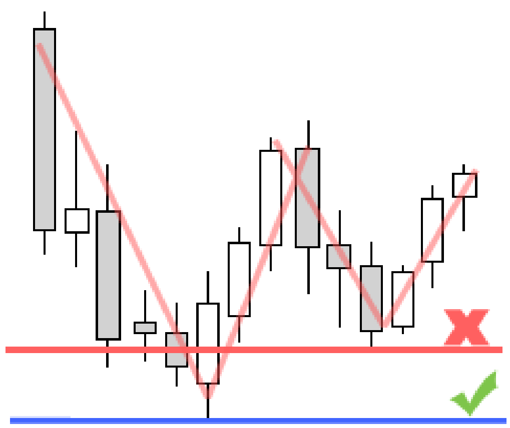
'L' shaped double bounce: L-shaped bounces are weaker lines. To place a scalp line on an L-shaped bounce, it has to have bounced at least two times from the same line. I personally do allow for 1-3 pips difference. Taking GBP/JPY as an example, if the first bounce is from 212.83 and the second from 212.80 I will still use it.



Scalp lines can be placed almost anywhere you see one of these types of formations. The only time I would not place a scalp line is if it is too close to an S+R line. I have an imaginary 20 pip boundary on either side of each S+R line, and I do not place my scalp lines there. If any of these bounces form within those 20 pips I just consider it a bounce from the S+R line.

If you get a strong bounce from an S+R line, it does not make the S+R line a scalp. If a scalp line gets a lot of bounces, it does not become and S+R line. It just becomes a very strong scalp line. It is important to understand that these lines are two different types of lines and should be treated as such.

Another thing to take note of is how often a scalp line should be placed. Personally, I like to see a minimum of 10 candles between my scalps. For example, if you see two 'V' shaped bounces form, as in the picture below, you do not place a scalp line at both price levels. You place the line at the lowest bounce. Of course, you would place it at the highest bounce if it is an upside down 'V' shape.



The 10 candle rule functions more as a guideline than a strict rule. You can place a scalp line at every minor bounce you see if you want to. If you do that though, you have to realize that the scalp lines placed on minor bounces are usually much weaker and your trade risk increases. Good scalp lines should be placed at the large, prominent bounces. They should mark the end of a trend. I do not place them at every single tiny bounce. I know this can seem very overwhelming at first, but after a few weeks you will be placing scalp lines like a pro. If you are ever unsure about placing a scalp line, simply ask in the Forex4noobs forum if the line you want to place is in fact a scalp line.

In conclusion, placing a scalp line is a simple process of identifying these bounces and then marking them. This is pretty much all I can do to explain how to place scalp lines. The rest is up to you. The best way to learn how to place lines is by placing them. So get to it! As I said above, if you are ever unsure about a line, ask in the Forex4noobs forum or the chat-room.

Chapter 4:
Trading Line Breaks

When To Enter S+R Line Trades

Line breaks are the main types of entries I use. This style of trading is commonly called Breakout Trading. However, this breakout trading is a little different than most types of breakout trading. The main difference is that I like to use my brain when deciding to enter. I do not robotically enter the moment a line is broken. There are several factors that dictate whether or not I get into a trade, and if I get in to the trade, when I get in.

Candle Movement (momentum): This is probably the main factor in determining whether or not I will enter a trade. Some people have trouble understanding what momentum is so I will try to explain it as best I can. As far as I am concerned it is a simple concept. I believe the people that have trouble understanding momentum are overcomplicating things.

Momentum simply refers to the speed at which the candle is moving. If the candle is moving very fast (moving up/down a few pips at a time without stopping much or at all), then the candle has strong "momentum". If, instead, the candle is pushing up 1 pip at a time, and every few pips it stalls and reverses slightly, then the candle has weak "momentum".

So, if a candle with a lot of momentum crosses either a scalp line or an S+R line I will enter right away. I do so because the candle already has momentum and the line break is likely to give it more momentum as new traders jump in. If I hesitate at all it could move 20 or more pips before I manage to enter. If, instead, the candle has very little momentum, and it is slowly crawling its way up/down when it crosses my line, I will hesitate. I do so simply because I do not have much confidence in the strength of the move. My hope is that the break of the line will give it the momentum it requires to begin to move, but I want to see that momentum first. If as soon as it breaks the line it jumps up 3-5 pips I will probably enter. Sometimes you will find a line is broken by 2 pips and then it completely reverses. This is why I am wary of moves with slow momentum. As a trader, I am trying to protect myself from entering a break that is not really a break.

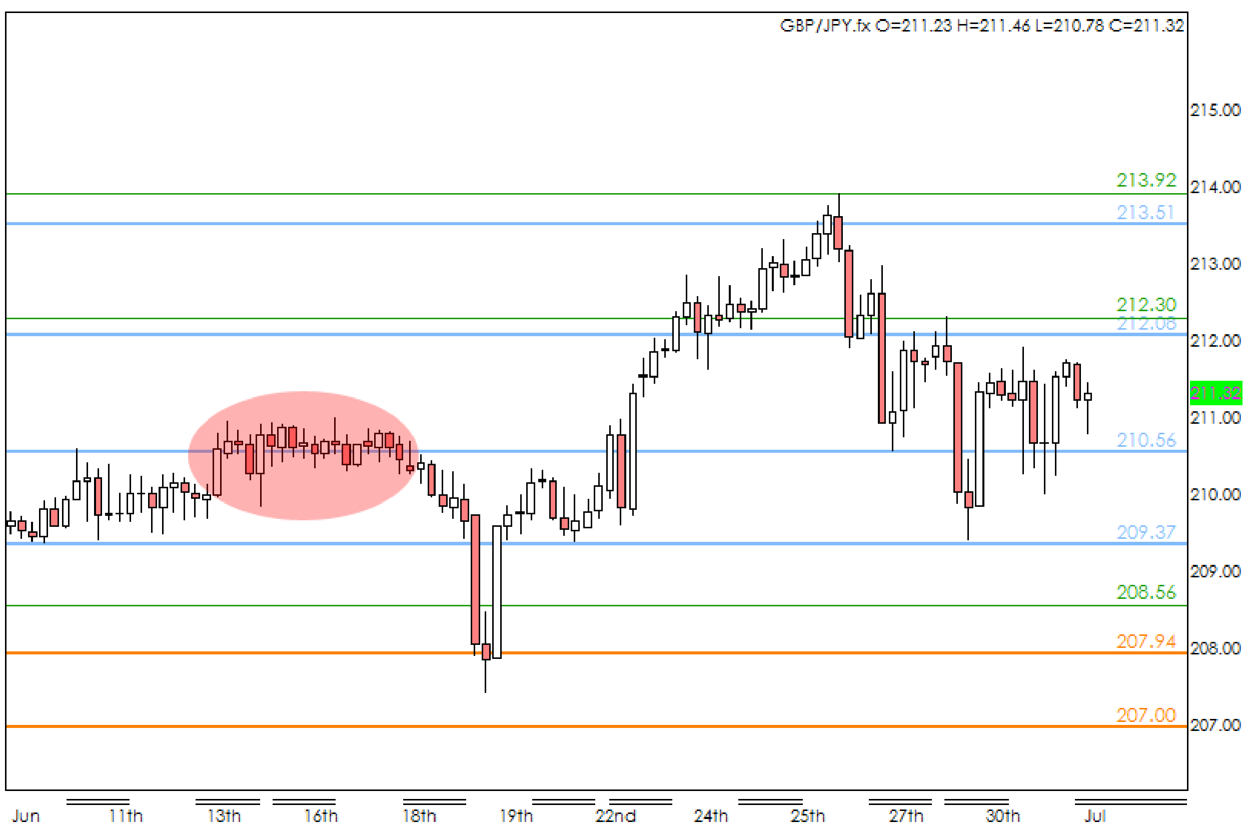
Determining momentum comes down to the "bulls" and "bears" I talked about before. A bullish candle with a lot of momentum shows that the bulls currently have a lot of power and the bears have very little power. Conversely, a bearish candle with a lot of momentum shows the bears have a lot of power and the bulls have very little. So, if I am looking to enter a Bullish trade and a candle with a lot of momentum crosses my line I know the bulls have power and I enter without hesitation.

Again, using a bullish candle as an example; if the candle is crawling up 1 pip at a time and constantly stalling, it suggests that the bulls currently have more power. However it also suggests the bears are fighting the move and trying to pull the price down. So, if my line is crossed only slightly, I am concerned that the bears can use the barrier the S/R line provides, and gain the upper hand, thus reversing the momentum.

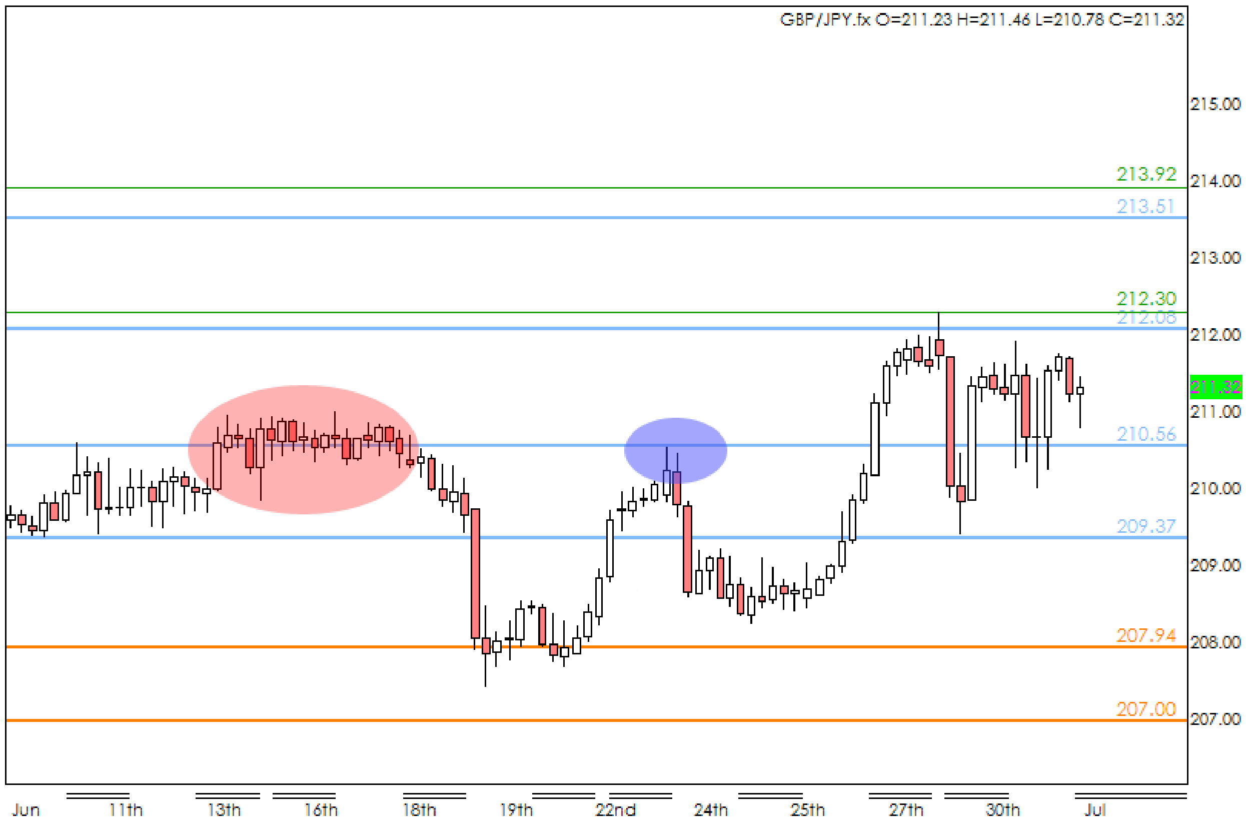
It is essential to remember that every single pip movement represents a struggle between the bulls and bears. Candles are a tool that tell us who is winning that struggle at that moment, this is why it is important to be able to read candles.

Line Strength: Line strength is simple to gauge. If the last time the price approached a line the price got stuck in a range on the line I would be very cautious about trading that line again anytime soon. At best, I would consider the line a very a weak line, but more likely a completely invalid line.

In the picture below, highlighted in red, you can see a range that is stuck on a line. A range like this severely weakens the line. There are two ways the line can recover. First, if price moves well away from the line (200+ pips), and stays away for about a week, I might consider trading the line again. This is because the line has had time to recover. However, I still consider the line risky because it has not displayed that it has regained is strength.   I am only assuming it has. I will probably trade the line, but I will be very cautious in trading it. I might enter with a reduced position, stop loss or both.

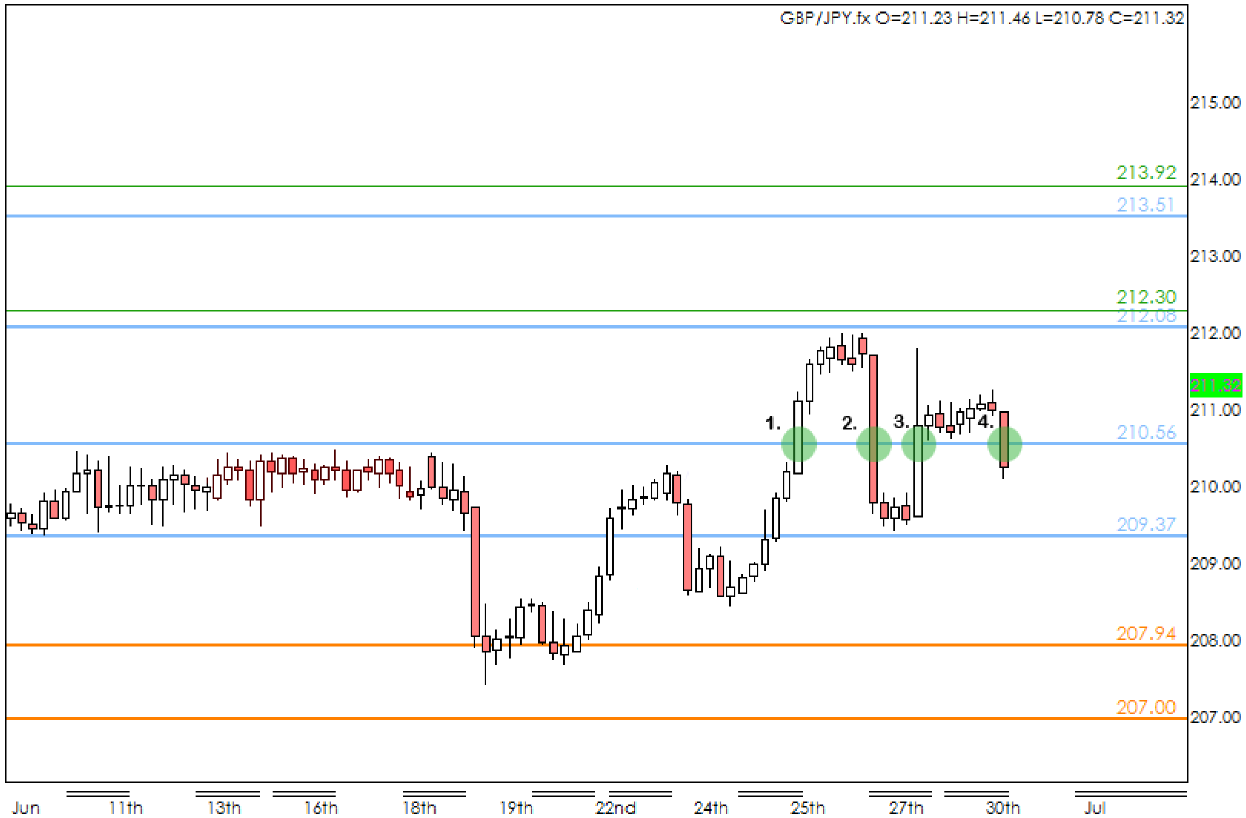


Secondly, a much better way for a line to regain its strength is for the line to completely reject the price. If you look at the picture below you see a range stuck on the line (highlighted in red), and a strong reversal from the line (highlighted in blue). The bounce from the line immediately makes it tradable again. You should be looking for the same kind of 'V' or 'U' shape in order to identify a scalp line.



You should also take into consideration the strength of the bounce. If it is a very weak bounce, it is not significant. I want to see a strong move towards the line, a bounce, and a strong move away. There is no exact amount of pips I want it to move, it is a judgment call I make at that time.

Previous Breaks: Every time a line breaks in the same week it gets more and more likely that the next break of the same line will not make for a successful trade. So after the first break, the chance that the second will make for a good trade is less likely, and the third break is even less likely. I will sometimes take the second break of the same line in the same week. I rarely take the third break, and I never take the fourth. I also expect to see at the very least 6 candles, and a 100 pip move between breaks. If there is not 6 candles between the first and second break, or the break of the first did not move at least 150 pips from the line, I will not trade the second.



Taking a look at the chart above we have 4 breaks of the same line in the same week.

1. The first break was a normal S+R line break and I would have entered.
2. The second break had 6 candles in-between breaks and moved at least 100 pips ways so I would have taken it.
3. The third break moved at least 100 pips but we only have three candles between breaks so I would not have traded it.
4. The fourth break I would not have traded because I do not trade the fourth break.

Let's imagine for a moment that the fourth break was only the second break. I still would not have traded it. Yes it did move 100 pips away, and there are at least 6 candles in-between breaks, but I would not have traded it because the 6 candles are too close to the line. I am looking for the candles to clear the line, stay around at least 100 pips away from it for at least 6 candles, and then come back.

Vicinity to S+R Zone: S+R zones are no trade zones for me. If the line is too close to the S+R zone I will not trade the line break. The general rule is: If the normal target of the line break will take you into the S+R zone it is not tradable. So, if a scalp line is 50 pips or less from an S+R zone it is not tradable. If an S+R line is 70 pips or less away from an S+R zone it is not tradable.

S+R Line Targets

Picking Targets

Targets vary depending on the pair you are trading. You cannot have the same target on GBP/JPY that you have on EUR/USD, because EUR/USD moves only about ½ as much. A little trick I have learned is to figure out the average daily range (ADR) of the pair and divide it by 4. This gives you an idea on what you should target on a normal S+R line trade. You will probably need to tweak the target slightly over time, but dividing the ADR by 4 gives you a general idea. To save you time I have figured out the ADR for you.

GBP/JPY ADR = 281 pips
281 / 4 = 70
GBP/JPY S+R line target = 70 pips

GBP/USD ADR = 172 pips
172 / 4 = 43
GBP/USD S+R line target = 45 pips

I'm sure you get the idea. I will let you figure out the rest of the targets for yourself.

USD/CHF ADR = 111 pips
EUR/JPY ADR = 183 pips
USD/CAD ADR = 117 pips
AUD/USD ADR = 111 pips
EUR/USD ADR = 127 pips

These are all the ADR's I have figured out. If you want to trade any other pairs you will have to figure it out for youself. Remember, I only trade GBP/JPY, so I cannot give you more accurate targets on other pairs. This is the best way to get a general idea. All you have to do now is tweak the target based on your observations.

Refining Targets

Once you have picked your target for a pair you apply it to your trades on that pair. If after some time you notice that the target is often not hit you lessen it. So for example above with GBP/USD we figure out based on the ADR being divided by 4 that we should target 45 pips. If when using that target you notice it is often not reached you simply lessen the target to 40 or 35 pips. If instead your target is hit and it often moves beyond it you could increase your target to 50 or 55 pips.

Keep in mind that this usually takes months of observations I do not change targets based on two or three trades. My targets on GBP/JPY have been refined by 3 years of data.

How To Trade S+R Lines

Depending on your account size and weekly goals you can trade S+R lines a few different ways.

Close Full Position At Target: The simplest way to handle the trade is to set a target of 70 pips and close out the full position once the target is reached. The 70 pip target is always 70 pips from the S+R line not from your entry. So for example if you have a S+R line on GBP/JPY at 218.00 and you are entering a long break you target 218.70. As soon as you see the candle reach the 218.70 point on your chart you close. If you enter a short at 215.00 your exit target would be 214.30. As soon as the candle hits 214.30 on the chart you exit. This is by far the easiest way to trade S+R line breaks.

Lock In And Target More: When you first enter you target 70 pips from the line just like the method above. When your target is reached you only close out half your position. You then move your stop loss to break even and try to target more with the second half. If it reverses and your stop is hit you will be stopped out at break even and lose nothing on the second half. You will have gained 70 pips on the first half of you position and 0 on the second half. If however the second half continues to move in the direction of the break that second half can make you 100-200 pips or maybe even more.

Personally I use the second method but I am beginning to phase it out. Closing the position with 70 pips is much easier and safer. After adding up the numbers it seems that the 'lock in and target more' way of handling trades makes about the same amount of pips as the easier 'close full position at target'. So there really is no advantage to only closing out half and trying to target more with the second half.

When To Enter Scalp Line Breaks

Scalp lines are much simpler to enter. However it is still not just a case of entering instantly on a line break. You should still take momentum into account in much the same way you would for a S+R line break. I am not going to explain momentum again since it is the same in application to scalps as it is to S+R lines so the explanation is on page 20.

Beyond this there isn't much to write about entering a scalp line trade. All it takes is a little practice, just keep candle momentum in mind.

Picking Scalp Targets

You can also use a simple equation to pick your scalp line targets. Everything is pretty much the same except for scalps you divide by 5. Again you will probably need to tweak the target slightly over time, but dividing the ADR by 4 gives you a good starting point. Here is an example:

GBP/JPY ADR = 281 pips
281 / 5 = 56.2
GBP/JPY SCALP line target = 55 pips

In reality I use a 50 pip target for my GBP/JPY scalps but this gets you very close. I have tried it on 10 different pairs now and every time it has given me a good target to start with.

How Long Do Scalp Lines Last

I would not want a normal scalp line on my chart for any longer than 1 month. If it is a very strong scalp line I may keep it on my chart for up to 2 months. A strong scalp has to have rejected a major trend or even possibly a medium strength trande but had two or more bounces. 90% of scalp lines would not be left on my chart longer than 1 month if they are not broken.

If a scalp line is broken it should be removed immediatley. I only ever use a single scalp line one time and them I remove it.

Chapter 5:

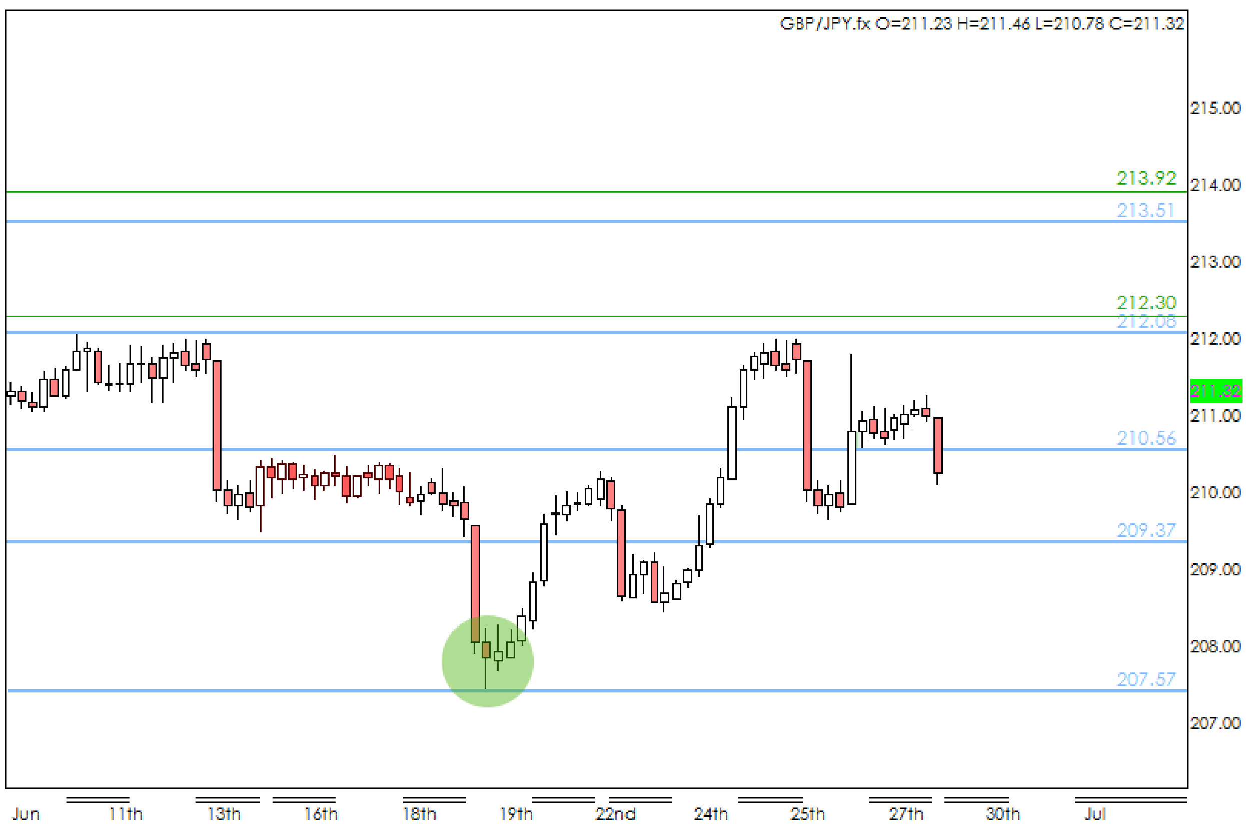
Trading Reversals

Spotting a Reversal

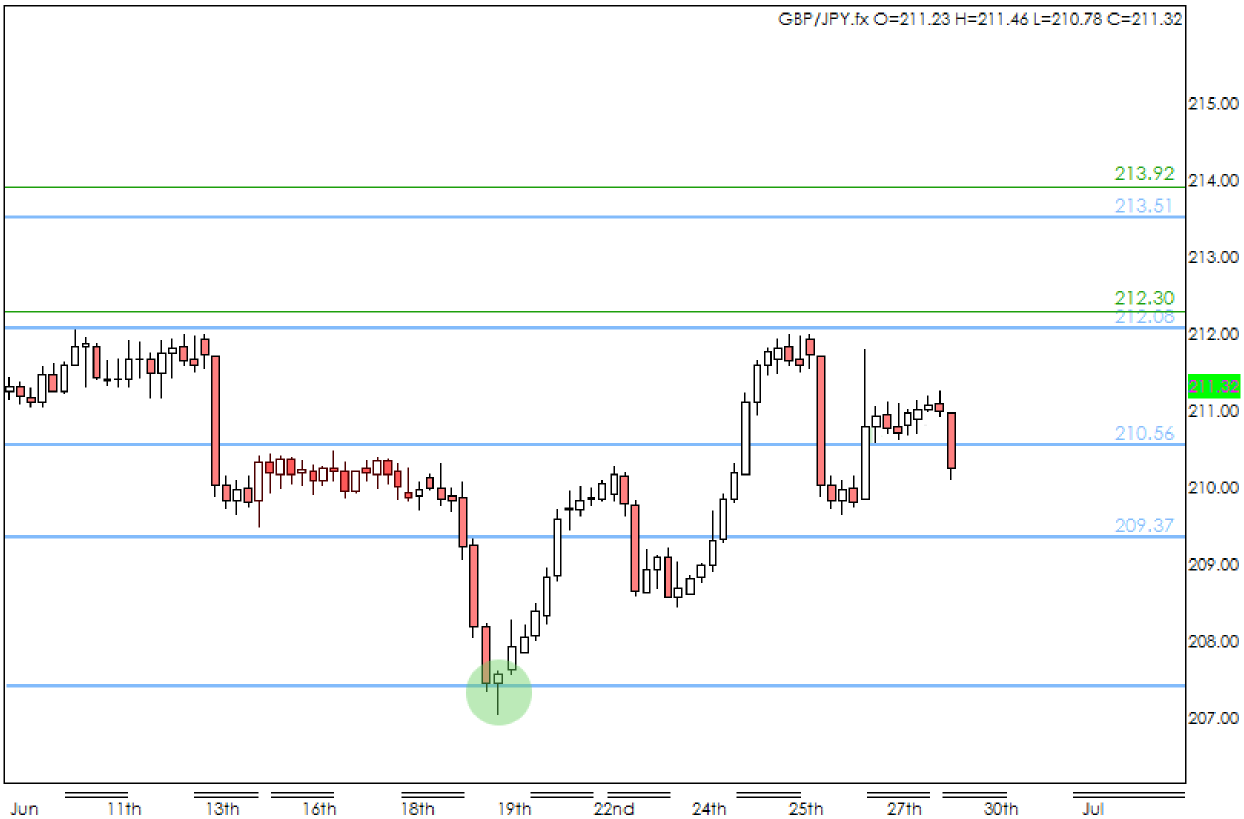
Reversals are something I rarley discuss because I do not trade them much. They are however a large part of my method so I will explain them here. Trading reversals is simpler than you might think. All you are doing is using candle patterns such as LWP's and S+R or Scalp lines togather.

What Reversals Look like

So far in this book I have explained how you can take line break trades based on S+R lines and I have also gone over some important reversal patterns. We already know that a S+R line is a barrier at which the price is going to have trouble breaking through. We also know that LWP's and GP's indicate possible reversals. If you look at the chart below you can see highlighted a S+R line and an LWP forming on top of it. This is what you should be looking for to enter a reversal trade, it really is that simple!



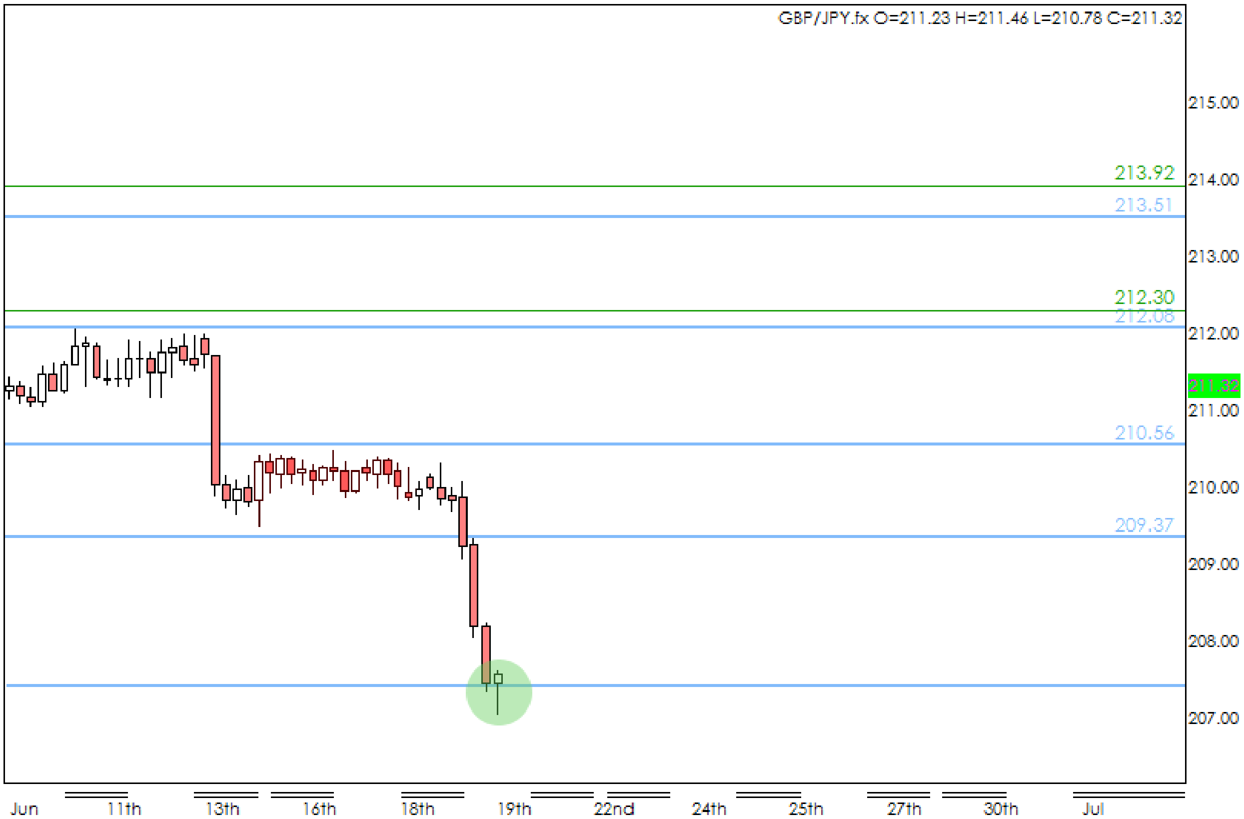
This next example is slightly different but it still counts as a reversal trade. If you traded the line break on this one it would not have worked out and that happens trades do fail. However now that an LWP has formed on the line you can trade the reversal and hopefully make some pips back.



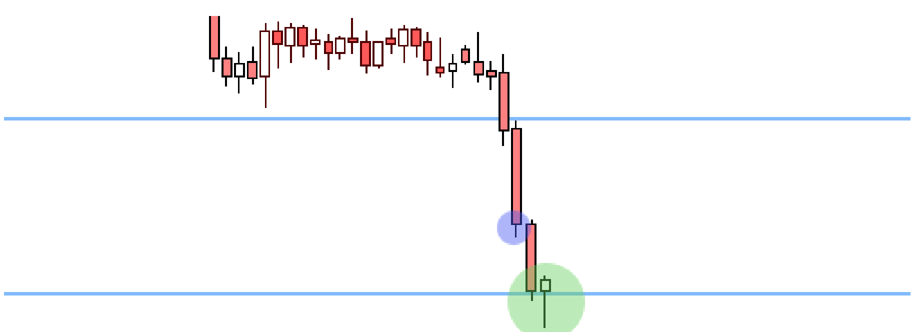
When an LWP forms on, near or past a line it indicates that the line is strong and that the price can not sustain itself at that level. This is a very clear indication that the price will probably reverse.

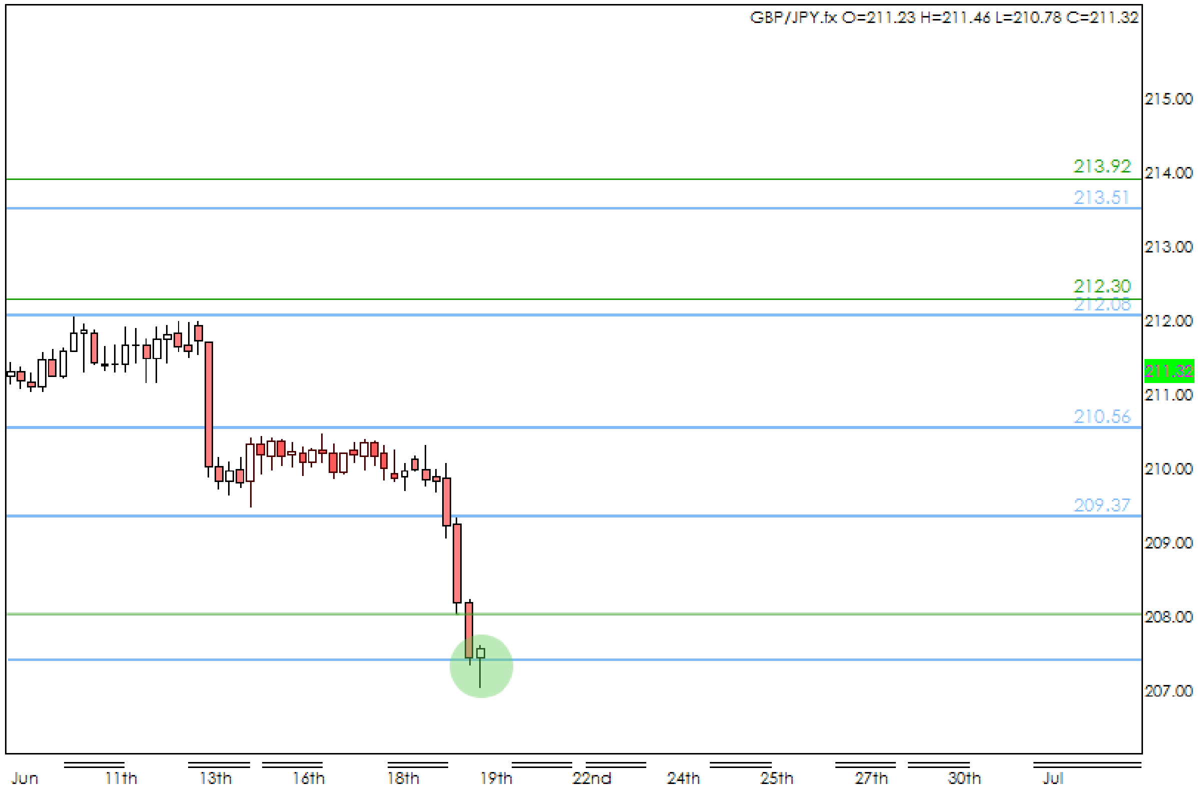
Trading A Reversal

Now that you know what too look for you need to know how to trade it, this is the harder part. You will first spot this pattern after the reversal candle closes. It will probably look a little something like this. You have the LWP's preceeding trend, the LWP's reversal and the S+R line.



At this point you should be thinking that a reversal is probably coming. You could enter here but peronally I find it a little too risky. I like to find the closest applicable line or place one and use that as my entry. If there is a scalp line near by you can use that as your entry level otherwise you will need to palce a temporary line. There is no exact distance I do this all by eye. In the example above there is no scalp level so I need to place a line at the nearest applicable level. As far as I can see the best level to place it at would be the low that formed two candles prior two the reversal candle.





As you can see there is now a temporary line. This line play absolutley no significance 99% of the time. It is only important when entering a reversal. This is because I like to see it break something no matter how insignificant to confirm it is an actual reversal. I know it sounds a little crazy but this is the safest way I have found so far.

So now the only thing left to do is wait for that line to be broken and enter the trade. I target 60 pips on the full position on a trade like this one. As for the entry itself you should be looking it at the same way you would a S+R line.

Reversal Trade Targets

You should target the same amount of pips you would on an S+R line. That target can however be refined, I target 60 pips on GBP/JPY reversals as opposed to the 70 pips I target on S+R line trades. I target 60 pips on the full position I do not close out half and move my stop to break even with reversal trades. If you are trading a new pair it is best to start by targeting the same you would on an S+R line and refine the target from there.

Chapter 6:
Stop Losses

Risk Reward Ratio

When people first start trading the Forex markets they are inundated with information from self proclaimed trading gurus. If you have been around Forex4Noobs for a while you probably know I believe 90% of these trading gurus are failed traders and 99% of what they is usless. Theyll tell you whatever sounds good so they can get into your pockets. One of the most consistently told lies is that your stops should always be half of your take profit. Whenever I hear this I have to laugh, it is just so completley ridiculous, if you actually think about it for a moment it makes little sense. If you are planning to lose 50% of your trades your then yes it makes sense and yes your stop loss should be 1/2 your take profit. I don't know about you but I certinaly do not plan to lost 50% of my trades I plane to win 80% and statistically I do.

Look at a pair like GBP/JPY which moves 280 pips per day on average. Who in their right mind would hold a 35 pip stop on this pair? I know that routinely on my trades GBP/JPY moves 40 or more pips against me before going in my direction. If I had my stop loss at 35 pips I would lose a lot more of my trades. In fact had I listened to these trading gurus who say your stop must be half your take profit I would probably not be a trader today. So if that little lie is planted somewhere in your head get rid of it now because it is not going to help you.

Calculating Stops

My stops are the same as my take profits. So on GBP/JPY with a 70 pip TP I have a 70 pip SL on S+R line trades. On scalps with a 50 pip TP I have a 50 pip SL. For any other pair you might want to trade just use the formula discussed earlier to calculate your take profit/stop loss.

Chapter 7:
Tailoring Targets & Stops to Market Conditions

Gauge Market Conditions

There are a few things you should consider when judging how much profit you should aim for on a trade. 95% of the time you should just go for your normal S+R line target discussed above. However your targets should sometimes change depending on market conditions. In a very fast trending market your targets should be much higher. In a very slow ranging market your targets should obviously be much lower. How do you know if a market is moving fast or slow?

Slow: A slow market is usually a ranging market. You can tell the pair is moving slowly when it is moving far below its ADR. So on GBP/JPY with an ADR of 286 if the market is ranging 150 pips I would call it slow moving

Normal: 95% of the time the market will just be in normal conditions. When the market is moving at or near its average daily range it is a normal market.

Volatile: A volatile market is usually a strong trending market. You can tell the pair is volatile when it's moving far above its ADR. Again using GBP/JPY as an example ADR is 280 if the market is moving 350 pips it is fast moving.

Holding a 70 pip target and stop in a very fast moving market is not a good idea. The price is moving much faster than normal so a normal target and stop will not be as effective. So when market conditions change you need to change your targets and stops.

Picking Targets For Market Conditions

Again I have a little equation that makes all this stuff very simple. To pick your targets for a slow moving market you just take the ADR and divide it by 5. This is exactly the same as figuring out your scalp line targets. Using GBP/JPY as an example:

GBP/JPY ADR = 281 pips
281 / 5 = 56.2
GBP/JPY Slow moving market target/stop = 55 pips

To pick your targets for a volatile market you take the ADR and divide it by 3. Again using GBP/JPY as an example:

GBP/JPY ADR = 281 pips
281 /3 = 93.6
GBP/JPY Volatile market target/stop = 95 pips

That is all you have to do. Now whever you notice the market is moving far above it's ADR you use your volatile market target if it is moving far below you use your slow market target. As always these may need refining with time but they are a great starting point.

Chapter 8:
Know When To Stay Out

Knowing When To Stay Out

A good traders not only know when to enter the market they also know when to stay out. One of the biggest problems for newbies is not knowing when to stay out of the market. They feel compelled to be in a trade every single day. I know this because I have been there and I see it in traders I speak to every day. They jump in a trade to quell that compulsion, they lose, and then suprisingly they are shocked that they lost. Trading Forex is about makign profit not about taking as many trades as possible. Some days, some weeks even are just not good times to trade and you should not be in the market. So let's go through some of the times you should stay out of the market.

Economic Releases (ER's): I stay out during certain economic releases. Generally speaking it is only during highly volatile ones for the pair I am trading and USD releases. So if I am trading GBP/JPY I will steer clear of trading during major GBP releases, major JPY releases, and major USD releases. On the 4hr charts most ER's not very significant. They might push the market 10 or 20 pips in one direction but with a 50 pip stop more often the position is safe. However major news releases have the ability to move the market fifty, one hundred, or even a few hundred pips. So when a major news release is close I usually jump out of or do not enter trades. You can see news releases for the coming weeks here (http://www.forexfactory.com/calendar.php). The ones to steer clear of are the red USD reports and the RED reports for the pair I am trading. So for GBP/JPY any red GBP or JPY reports.

Important Speeches: What happens when there is an important speech is traders around the world flick on Bloomberg and listen intently much like pigeons waiting for scraps of food. As soon as the speech giver gives their thoughts on the economy (even accidently) traders start taking shorts or longs and the market goes crazy. If what they hear is good they buy if it's bad they sell. Often times after they hear something good they hear something bad and the currency flies up and then plummets all in the space of a few min. To be honest I am making it sound a little crazier than it is, very few speeches are actually like this. The speech givers are usually pretty careful about what they say but if they do slip up and say something prices can fly in all directions.

For me it is just a whole lot safer to stay out during important speeches. But what are important speeches? Well I only really care about speeches from central bank leaders. America's central bank leader Ben Bernanke is a dangerous man, a few wrong words out of his mouth can have a major impact on the USD and many other currencies along with it. The British CB leader Mervyn King can do the same especially with the GBP. I also watch out for Jean-Claude Trichet's ramblings as they can affect the Euro and other currencies along with it. So in short when one of these three men are up on the podium I do not enter any trades.

You can sometimes catch speeches live on Bloomberg TV which is available free online here (http://www.bloomberg.com/streams/video/LiveBTV200.asxx). To see what speeches are coming up I use the ForexFactory calendar found here (http://www.forexfactory.com/calendar.php).

Range Bound Periods: Sometimes a currency pair will fall into a tightly ranging period. A tightly ranging period is when the currency pair moves far below its ADR and seems to be stuck between two points. Earlier I gave you the ADR of GBP/JPY as 281 pips, in the image below we see GBP/JPY bouncing between two lines about 120 pips apart.

At times like this I tend to saty out of the market. When the currency pair picks up again and starts trading at it's ADR I will get back into the market. Sometimes I may enter but if I do my targets will certainly be much lower.

Chapter 9:
The End

Well that's it for my trading method. I hope you learned something from this e-Book and as always if you feel I haven't explained anything in enough detail feel free to ask in the forum.

