“How To”
TRADEING MANUAL
Foreign Exchange Markets

How to Analyse Forex
How to Trade Forex
How to Make More
How to Lose Less
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1. Forex Markets and Forex Trading

Introduction to Forex Markets

The Forex market, also called the currency market, is the most actively traded asset class in the world, with trillions of dollars exchanged every day. It trades 24 hours a day, from Sunday afternoon London time, to Friday night.

It opens in New Zealand when currency traders come to work Monday morning their time (Sunday night in London) and it closes Friday evening when the traders in New York and the rest of the US heads off for the weekend.

In those 5 days it doesn’t stop trading!

There is no central exchange where you can trade Forex. It is not like the stock market, where the US has their NASDAQ exchange and their New York Stock Exchange, and Britain has its London Stock Exchange. Instead the Forex market is traded electronically and it is truly global.

Major banks and brokerages all over the world make a market in currencies, providing a buy price and a sell price for their customers. They are called liquidity providers. They tend to have operations all over the world, so when members of staff go home in London, the staff in New York take over.

Forex is not like stocks where you purchase a share, and then you pay the full price for the share. Rather Forex is traded using leverage. This means you only put down a small deposit to trade a proportionally much bigger position. This is also known as trading on margin.

It is very easy to trade Forex, and there are so many different currency pairs you can choose from. Most traders tend to focus their efforts on following just a handful of currencies, and it is usually the major currency pairs they trade, like Euro Dollar.

The Things You Need to Get Started

You will need a trading account. Since I use ETX Capital I am recommending them. They have everything you need to make trading a viable proposition, which of course is to make money from trading. They have been established for decades, and they simply have the best and most reliable platform in the industry.

You can trade VERY small size while you are learning how to trade with ETX Capital. That means you don’t have to be concerned so much about your profits or your losses to begin with. The importance is on learning. You can even open a DEMO account to begin with to get the hang of the platform.

I have included a brief primer of how their trading platform works, and how financial spread betting works as well.
Forex Trading Action Plan

You will need an action plan to guide you through the first months of trading. It will reduce your learning curve and it will provide you with structure in a rather un-structured environment.

What do I mean when I say it is unstructured?

Well, look at the facts: there is no opening time, there is no closing time, and you can trade as often as you want with as much money as you can personally afford, with unlimited risk to yourself and operating in an environment where you eat what you kill. There is no regulation (although your broker is of course regulated), and the rules of the game changes every day, sometimes many times in the day.

I am going to provide you with some structure to your trading and train you to slowly navigate your way around the market. Easy does it, to begin with.

Trading is simple, but it is not easy. To put it differently, it is easy to open a trading account and begin buying and selling currencies, but if you don’t know what you are doing, then the odds are high that you will not last very long.

The action plan is a guide to your first steps in the markets. The best thing you can do for yourself is to read this manual from cover to cover, and then go back to the individual points and action them, as and when you are ready.

I have covered everything you need to get off to a brilliant start. I have actually given away the secrets of how I trade myself. This is a not a beginners manual or an advanced manual. It is simply a manual for profitable Forex trading.

Details of Action Plan

1. Read the manual from cover to cover
2. Open a trading account or a demo account (take advantage of special offer)
3. Begin applying the techniques in Part 2 of the manual
4. Start trading small
Summary: Forex Markets – Forex Trading

1/ Forex is a 24-hour market
2/ Very easy to trade
3/ Many different currency pairs to trade
4/ Easy to trade with ETX Capital – demo account available

Notes:
2. Basic Facts of the Forex Market

Currency Trading Terminology

Here are some of the facts about currencies that are useful to know.

- A currency is a country’s mean of exchanging goods and services within its own borders and abroad. The money exchanged is called their currency. In Denmark for example it is called Danish Kroners.
- The exchange rate is the price at which you can exchange money in one currency into the money from another country.
- The major currencies of the world are:

<table>
<thead>
<tr>
<th>Code</th>
<th>Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD</td>
<td>American Dollars</td>
</tr>
<tr>
<td>GBP</td>
<td>British Pounds</td>
</tr>
<tr>
<td>JPY</td>
<td>Japanese Yen</td>
</tr>
<tr>
<td>EUR</td>
<td>The Euro for members of the European Union</td>
</tr>
<tr>
<td>CHF</td>
<td>Swiss Franc</td>
</tr>
<tr>
<td>NZD</td>
<td>New Zealand Dollars</td>
</tr>
<tr>
<td>AUD</td>
<td>Australian Dollars</td>
</tr>
<tr>
<td>CAD</td>
<td>Canadian Dollars</td>
</tr>
</tbody>
</table>

Some currencies are traded more than others. The major currency pairs are called the Majors. They are as follows:

<table>
<thead>
<tr>
<th>Name</th>
<th>Code</th>
<th>Symbol</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sterling Dollar</td>
<td>GBPUSD</td>
<td>£ $</td>
</tr>
<tr>
<td>Dollar Swiss</td>
<td>USDCHF</td>
<td>$ CHF</td>
</tr>
<tr>
<td>Dollar Yen</td>
<td>USDJPY</td>
<td>$ ¥</td>
</tr>
<tr>
<td>Euro Dollar</td>
<td>EURUSD</td>
<td>€ $</td>
</tr>
</tbody>
</table>

The minor currency pairs are numerous. Here are a few examples:

<table>
<thead>
<tr>
<th>Name</th>
<th>Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sterling Yen</td>
<td>GBPJPY</td>
</tr>
<tr>
<td>Euro Swiss</td>
<td>EURCHF</td>
</tr>
<tr>
<td>Sterling Swiss</td>
<td>GBPCHF</td>
</tr>
</tbody>
</table>
The Way Forex is Quoted

How is a currency pair quoted? What does it mean when you are seeing Euro Dollar trading at 1.3345? How does the Forex market set the prices? These are some of the questions we will look at now.

Let’s take a look at the way a currency is quoted.

If we stay with Euro Dollar, then it is made up of two currencies, namely the Euro and the US Dollar. In the Forex market it would be described as EURUSD.

The Forex market operates with two rates. There is the Base rate and the Quote rate

**Example 1:** EURUSD

- EUR is the base rate
- USD is the quoted rate

The price will describe how much ONE unit of the base rate will buy you of the quoted rate

**Example 2:** GBPUSD

- GBPUSD trades at 1.5535
- Base rate is GBP
- Quote rate is USD

For ONE unit of Pound, you get 1.5535 US Dollars.

So if you spend £10 (ten British Pounds) on buying US Dollars, you will receive £10*1.5535 = $15.53.

**Example 3:** GBPEUR

- GBPEUR trades at 1.15

Therefore One British Pound will buy you €1.15
Advanced Exchange Rate Example

In the last example we used the exchange rate between the British Pound and the Euro. What if you have one Euro, and you want to exchange it to GBP, how much will you receive?

Reciprocal rate = Inverting the exchange rate, so Base rate becomes Quote rate, and Quote rate becomes the Base rate

Answer: one divided by exchange rate = reciprocal rate

\[
\frac{1}{1.15} = 0.8695
\]

The answer is that one Euro (€1) = £0.8695

If this reminds you a little too much of the math classes you are trying hard to forget from school days gone by, then please don't despair. You do NOT need to know this to trade Forex. I am just telling you how the Forex market is put together.

Summary: Basic Facts of the Forex Market

1/ The Forex market is traded in currency pairs

2/ One unit of the base rate will buy the quoted amount of the quote rate

3/ Currency trading is focused on trading the exchange rate between two countries

4/ The reciprocal rate turn the base rate into the quote rate and vice versa

Notes:
3. Practical Forex Trading Terminology

How Are Your Profits or Losses Calculated?
Currencies are traded as “pips”. A pip is the smallest fluctuation you can see in the exchange rate.

For example, GBPUSD = 1.5546

One pip increase = 1.5547

One pip decrease = 1.5545

As a currency trader you want to make as many pips as possible. The value of the pip depends on how much you have risked. We will look at “pip” size now.

Value of Pip
The value of the pip is decided by you. You decide how much you want to risk per pip. The more you want to risk, the bigger the account you need. It all depends on your appetite for risk and the size of your account.

In the example below, you risk £1 per pip

Risk: £1 per pip

Price of GBPUSD: 1.5546

Action: You buy GBPUSD at 1.5546

Later the price is: 1.5596

Action: you sell GBPUSD at 1.5596

You made 50 pips. Your profit is calculated as follows

Closing Price minus Open Price = pips made or lost

Profit or loss = pips made (or lost) * £ risk per pip

Your trade looks as follows:

1.5596 minus 1.5546 = 50 pips

50 pips * £1 = you made £50
Summary: Practical Currency Trading Terminology

1/ The smallest increment is a pip
2/ Your goal is to make pips
3/ The value of a pip is set by you
4/ Your trade size is a function of your appetite for risk and your account size (and your experience with Forex trading)

Notes:
4. Quick Guide to Spread Betting (Spread Trading)

Spread betting, sometimes known in Europe as Spread Trading, is an easy and cost efficient way to enter and exit the market. I have traded with many different spread betting companies, but I have now settled with one broker called ETX Capital, because they consistently have lived up to my expectations.

“\textit{I have traded with ETX for 4 years and their platform has never had any technical issues during this time.}”

I was looking for a company that offers a reliable trading platform. I have traded with ETX for 4 years and their platform has never had any technical issues during this time. I want to be able to trade straight from the charts. ETX offers that. I want a good charting service, and they certainly offer that. Finally, but most importantly I want to have fast and reliable execution. They offer that even when I trade big size.
Uniqueness of Spread Betting

Spread trading is unique in the sense that you are not trading with contracts or lots. You nominate your own trading size whenever you trade, and you ALWAYS trade in your own currency. If you live in England you trade in Sterling, and if you live in Denmark you trade in Danish Kroners. If you live in the European Union, you will place your bets in Euro.

Spread betting is a much smarter way of trading than, for example, CFD trading. Although they are the same in the principle of executing the trades, there are some major differences.

When you trade using spread betting, you always trade in your own currency. This is different to CFD trading, because with CFDs you always trade in the currency of the asset you are taking a position in.

When, for example, you are trading Dow Jones Index with a CFD you are taking a position nominated in US Dollar, and you then have currency exposure as well. With Spread Betting you are purely trading in your own currency. You know exactly what your exposure is. You don’t have to convert from US Dollars into another currency.

So if you are based in Denmark, you can bet DK100 per point in the Dow Jones Index, and every point the Dow Index moves up or down will make or lose you DK100. There is no currency exposure to worry about at all.

Trading currencies works exactly in the same way. You nominate how much you want to risk per pip movement, and that is all you have to worry about. You don’t have to worry about the size of micro lots, or mini lots or contracts or any of the issues facing a CFD trader.

I am going to go through some examples on how to place trades with ETX Capital. I have sneaked in some examples from Stock Indices as well, just so you can see that the principle of Spread Trading is the same, irrespectively if you are trading currencies, or individual stocks or commodities or bonds and stock indices. You nominate your risk per point, and then you simply buy or sell.
Example of Spread Bet on Stock Index

DAX (called Germany 30) is trading at 7921-7922

- **7921**: the price to sell short or to close a buy trade
- **7922**: the price to buy or to close a sell short trade

You think DAX will move higher. You bring up the DAX trading ticket, and in the “stake size” you put £10. You then click “BUY” at the price of 7922.

Later the price is 7932-7933

You close the trade at 7932.

You have made 7932 minus 7922 = 10 points

You risked £10 per point.

**Your profit is £100.**

If you had lived in Denmark, you may have put your stake size as DK 200 per point.

Your profit would have been 10 points times your stake size of DK200 = **DK2.0000**

**What if you had done the opposite?**

You sold short Dax at 7921. You had to buy it back at 7933.

Your loss is 7921 – 7933 = 12 points

**12 points * £10 = £120 loss**

Notes:

The examples above illustrate perfectly the merit of trading with ETX Capital or any spread betting company. The principle is 100% identical whatever product you are trading. Forgive me for the banality of the example, but imagine the price of 7921 – 7922 is the price for an orange.

If I think the price of an orange will rise from 7922, I can place a trade on the orange, betting on the direction of the price of the orange.
The point I am trying to make is that the principle is universal. It means that even though you are trading shares normally priced in US dollars, you still nominate your trade size in your own currency.

This is a screen shot of the ETX Capital trading platform.

The white arrows are my inserts. I wanted to give you an idea of how the platform works.

At the top you have the trading instruments and their current trading prices. You also have the icons there next to the prices, so you can quickly open a chart of the instrument as well as the trading ticket.

Below the prices I have placed 3 trading tickets. There is the ticket for GBPUSD, the ticket for EURUSD, and finally the ticket for EURJPY.

I have circled in RED the place on the trading ticket where you input your stake size. It is very straightforward.

Once you have input your trading size, you simply click BUY (blue background) and SELL (red background).

Underneath the trading tickets you can see the position monitor, where you can view your open trades, your stop-loss orders, your closed trades, and your trading history from the past. You have full control over past and present trades.
You can download your past trading history. You can email charts to yourself. You can have alerts sent to you when certain prices are breached in the market. I am not doing it justice here. Open an account or a demo account and look for yourself.

**Example of Spread Bet on Currency**

**EURJPY** is trading at 127.958 – 127.978

Here it may get a little confusing because you have been taught that a pip is the smallest possible increment. However, most brokers, including ETX Capital, quotes 5 digits, with the 5th digit being a fraction of the 4th digit, and it is the 4th digit that is the pip.

So on the trading ticket below you can see the price as 127.958 – 127.978

So IF you bought at 127.978 and you could sell it at 127.998, you would make 2 pips. The 5th digit is the fraction of the pip.

**Demonstration Trade**

I input £1 per point in the stake size, and I input a stop-loss of 35 points. The **BLUE box** is pressed if I want to buy at 127.978, and the **RED box** is pressed if I want to sell at 127.958
NOTE: I bought another £1 a point in EURJPY. So now I am long £2 a point. This is not shown here, but it will be displayed on the “open position” monitor on the next image. I like to add to my profitable positions, even when I am doing a demonstration trade.

My position monitor is shown below. My open profit is £27.90.

When I want to close the position, I simply click on close (circled in white on the far right of the image), and the platform will show me a trade ticket for EURJPY for £2 a point. You then click to close, and the position is now closed. The stop-orders are deleted at the same time.

It is that easy!

This is obviously a very simple demonstration of the trading platform at ETX Capital. You can open a demo account with ETX and try for yourself. It is easily done.

Visit: www.etxcapital.dk/platform/demo.aspx

Summary: Quick Guide to Spread Trading

1/ You always trade in your own currency

2/ You nominate your own stake size

3/ The principle of spread trading is the same for all asset classes

4/ A demo account is a great way to learn the platform quickly without any risk
Special Offer from Tom Hougaard

I have a special offer for you.

If you open an account using the unique link below, you will get following:

1. **£300 on top of your own deposit**
2. Two outstanding trading books, one on trading psychology and the other on trend following
3. DVD of Floored – the best trading film EVER

Terms and conditions apply. Click on the link below and read all about it. There is no catch, but you have to deposit a certain amount of funds to your account to get £300.
Visit: [www.whichwaytoday.com/etxcapital.htm](http://www.whichwaytoday.com/etxcapital.htm)

It is important you remember that you have to use the link above; otherwise this offer is not valid.
Preparing to Trade
When you plan a trade, you need to ask yourself some simple questions first.

These questions will take some time to figure out initially, but once you get more experience in placing trades and you develop a trading plan, it become second nature.

- How much do you want to risk per pip?
- How many pips do you want to risk?
- What price do you want to enter the market?

Stop Loss – To Protect Your Capital
No matter how good you are, you need to protect yourself for the times when things go in the opposite direction of what you had anticipated. In the markets we use a stop-loss for these events.

A stop-loss is an order that automatically closes your trade when the price reached a certain price level, defined by you. It is used to limit your loss to a certain amount, and it is also sometimes just called a “stop”.

Limit Order – A Way of Taking Profits
This is an order that automatically exits your trade at a price defined by you, to close for a profit.

Quick example: You buy GBPUSD at 1.5500
Your stop loss is 1.5470
Your limit is 1.5560

This means you will either close the position for a loss of 30 pips or a profit of 60 pips.

Once you have placed a trade with a stop and a limit, you can of course change them, if you want. You don’t have to have a stop-loss or a limit order, but it is strongly advised that you at least have a stop-loss.
Trailing Stop
An order placed that automatically moves your stop loss up as your position becomes more and more profitable. It helps you to lock in your profits. So as the market moves up, so too is your stop-loss. You do not have to be there to observe the trading platform or the market. It is all done for you automatically.

Summary: Quick Guide to Spread Betting

1/ You nominate your risk per pip – also known as risk per point
2/ You only trade in your own currency
3/ You have access to charts
4/ You have access to stop-loss orders, limit orders and trailing stops
5/ Before you trade, you need to know how much you want to risk on a position

Notes:
5. What Makes Forex Markets Move?

As a trader we are looking for markets that move. What makes the currency markets move? Who buys and sells in the currency markets? While you don’t need to know who is in the market to make money from Forex, a little background into currencies won’t go amiss.

Global corporations operate in the market. Ford Motors sell cars all over the world. They receive money in many different currencies, which they then convert into US Dollars on the currency market.

Hedge funds speculate on the direction of currencies in order to generate profits.

Central Banks operate too in the currency market for various reasons, such as supporting their own currency.

Who buys and sells in the currency markets?

Advanced Concepts of Currency Trading

A currency represents a way of conducting transactions in a country. The British Pound will allow you to buy goods and services when you are in the UK. If you live in the UK, and you want to travel to the US, you will exchange your British Pounds to US Dollars. You do so using the exchange rate between GBP and USD.

What determines the price of a currency pair, like GBP USD? The answer is: Demand and supply. There is no other factor. It is simply the flow of buying and selling which determines the price of a currency pair.

There are several things which can make currency speculators sit up and pay close attention. Before I can go into that, I need to explain a concept to you. It is called the “Carry Trade”.

When you put money into your bank account, you will earn interest on your money. When you borrow money from a bank, you have to pay the bank interest. This is the same all over the world. Whether you live in New York or in Copenhagen or Paris or anywhere else we all have to pay interest on money we borrow, and we receive interest on money we lend to the bank (our bank deposits).

However, interest rates are not the same all over the world. Some countries have very low interest rates. In those countries it is cheap to borrow money. In some countries it is expensive to borrow money, and correspondingly you receive much more interest on your bank deposit than you do in the countries with low interest rates.

Imagine you can borrow money in one country very cheaply, and then convert them to another currency, and put them in a bank account in that country. Then you would make money, due to the interest rate differential.
For example back in 2004 you could borrow money in Japan at 0.50% interest a year. You could then convert the money to New Zealand Dollars and put them into a bank account in New Zealand and earn 8% in interest a year. Your net profit would be 7.5% a year. Not bad for doing very little.

However, it is not risk free! It would be risk free if the interest rate stayed the same in both countries forever, and if the exchange rate between Japan and New Zealand stayed the same. But things change. The markets don’t stand still.

**Market Movers in the Forex Market**

A Central Bank of a country will always keep an eye on its own currency vis-à-vis its trading partners. If its currency becomes too expensive, then the goods and services offered of the country becomes unaffordable for foreign trading partners, and subsequently demand falls, leading to unemployment and loss of ability to compete in the international market.

Currency traders are found to pay close attention to what Central Banks are saying. When a Central Bank spokesperson makes comments on the country’s interest rate, it can have a profound effect on the Forex market.

Every week there is economic news released by government agencies all over the world. This can often have a huge impact on the flow of the Forex Market. This is because the news is being interpreted as being good or bad for the country’s ability to compete in the world of commerce, and Forex traders attempt to capitalise on the new information.

**Example**

On the 25th April 2013 at 09:30 we were expecting the quarterly preliminary GDP figures from the UK. The market was expecting 0.1%, but instead the number was 0.3%

The result of the economic news release affected the exchange rate between the UK and the US profoundly. The chart below shows what happened to the GBPUSD rate immediately after the news release.
Chart of Sterling Dollar, with the effect of the economic number released at 09:30am on the 25th April 2013 circled in RED. The market was surprised by the strength of the UK economy and immediately began buying Pounds and selling US Dollar. The chart is moving up, indicating that you get more US Dollars for your one unit of British Pound.

Other things that are watched by Forex traders are when Central Banks set interest rates. The interest rate in a country has an impact on its currency and is rated against other currencies.

What Drives the Movement in the Forex Market on a Day-by Day Basis?
Commercial firms buying or selling
Day traders and trend traders speculating on the direction of the market
Hedge funds taking positions
Pension funds taking positions

Summary: Currency movements
1/ Interest rates and news have a big impact on currency trends
2/ Often currency trading is driven by what traders expect will happen in the future
3/ Currency traders will listen very carefully to Central Bank announcements
6. Time Zones in the Forex Market

There is no opening and closing times in the Forex Market, and there is no central global exchange where traders go to trade. It is all done electronically, and it is done 24 hours a day. Nevertheless there are natural times when the market is very active and very quiet.

Europe/London Time:
The market becomes very active around 6am-7am. At that time traders in both London and in the rest of Europe are arriving at work and begin to trade currencies, executing their own orders and the customer orders. The market tends to be very active in the first few hours of trading, especially if there is news released at 09:30am.

While the market is active, it often calms down around 11am unless the news has shifted market sentiment. Most economic numbers are released between 8am and 09:30am. Those are the very busy times of the Forex market.

New York/US Time:
The US traders come to work around 12pm London time, and the market gets active again. Most economic numbers are released in the US either at 13:30 or 15:00. Those are the times when the market gets very busy.

By 5pm the market quiets down because the London traders go home. By 9pm the US traders go home as well, and the market has its most quiet period between 9pm and 1am. Quite often the market goes into a VERY narrow range between 10pm and 2am.

Asia Time:
By midnight/2am the market begins to liven up again as the Asian traders come to work. Nevertheless it is rarely as active as it is in London. London is really considered the focal point of global currency markets.

Conclusion of Part 1
This concludes the first part of the trading manual. The whole purpose of the first part was to introduce you to the basic concepts of the Forex market and the mechanics of placing trades. Now I will begin the process of teaching you how to make money (and not lose so much) in Forex.
I need to explain a few things to make sure you understand what lies behind the trading philosophy.

Fading is another word for “going against”. If the short-term trend is down, but the long-term trend is up, then we are looking to BUY the market.

Fading in this context means to go against. We are going against the short-term trend because we believe the longer-term trend will re-assert itself.

Example

The first chart on the next page is the 5-min chart of sterling Dollar. It looks like it is headed lower. After a good run higher, it has failed to hold the support levels established the day before. During the night and into the morning the GBP USD is selling off.

The second chart is the same currency, but from a different perspective, an hourly chart. You can see from the longer-term chart the trend is up. Nothing goes up in a straight line. It is important to
remember that most, if not all, up-trends will have temporary retracements, and all down-trends will have retracements to the upside.

This is a perfect example of how the short-term trend is down, and the longer-term trend is up. Of course no trend lasts forever, and one day the short-term trend will be the beginning of a long-term trend. That is why we always use a stop-loss on our positions. We assume that the big trend will continue, but we can’t be 100% certain it will.

*The GBP USD chart below is breaking lower on the 15min chart. Support is broken and it looks like the trend has changed to the downside. If your only vantage point was the 15min chart, then you would be right in your assessment.*

![GBP USD chart](image)

*The GBP USD chart on the next page is the hourly chart (60min). When we view this chart we get a different perspective that we do when viewing the 15min chart.*

*Here we clearly see that the market is trending higher, and the downtrend we are watching on the 15-min chart is seemingly nothing more than a retracement in an overall up-trend.*
Trading Philosophy vs. Trading Entry

Of course one thing is to verbalise what your trading philosophy is and make it sound all high and mighty. Another thing is the practicality of the philosophy.

The aim of the second part of the trading manual is to take you through the theory and supplement it with example. The actual trading method is not composed of a singular entity. Rather it is an amalgamation of several techniques.

I once used a murder-analogy during a workshop to explain my trading philosophy. The police are investigating a murder, and they have arrested a suspect. The damn problem is that the suspect has an alibi. There is no murder weapon, and the suspect has no obvious motive.

Based on these facts there is no case. Then the murder weapon is found in the suspect’s car, although there are no finger prints. It could have been planted there to frame him. Then the suspects alibi crumbles, and a compelling motive is revealed. The case goes to the jury.

The police are investigating a murder, and they have arrested a suspect. The damn problem is that the suspect has an alibi. There is no murder weapon, and the suspect has no obvious motive.
The similarities between the murder case and the financial markets may not be obvious to you yet, so allow me to explain my thinking.

The currency in question, let’s called it the Euro Dollar, is retracing, but it is in an obvious up-trend. However, we can’t just indiscriminately buy the Euro Dollar. We have to find a plausible entry point.

There is a Fibonacci level close by, a 38% retracement of the big range. However, that in itself means nothing. There is after all also the 50% retracement to contend with, the 61.8% retracement and of course the 78.6% retracement.

Upon further analysis, it emerges that a well-known pattern called an AB-CD is completing exactly at the same price level as the 38% retracement. Now there are two reasons why the particular price level may be a good place to buy.

And so it goes. My mission with this second part of the manual is simply to train you to find these particular price levels yourself. It is a question of fact-finding. The more reason you can find to buy or sell short at a certain price level, the higher are the odds of success.

When you find more than one reason why a certain price level is significant, it is called a “cluster” or a “confluence”. It could be a cluster/confluence of support or it could be a cluster/confluence of resistance.

I use several techniques, all of which we will discuss in the remainder of the manual.

Fibonacci Retracements and Extensions

Harmonic Moves

Pattern Recognition

Confluences
8. Understanding Chart Time Frames

I use two charting packages. One is a paid-for service, which I use for research. The other is the free charting application provided by ETX Capital. I use that for all my trading. Whenever I sit and watch the market intra-day, and take positions, I use the ETX charts.

The Time Scale on a Chart

Each bar or candle on the chart tells you the open, the high, the low and the close for the time frame you have chosen. So if you have chosen a 10-min time frame, you get the open, high, low and close for that particular 10 minute segment.

When I go through my morning routine (discussed in the chapter “Daily Work Routine”), I go through the several timeframes of the currency pair. As this will be discussed at length in the next chapter, I will focus on the time-frames here.

“When I go through my morning routine (discussed in the chapter “Daily Work Routine”), I go through the several timeframes of the currency pair.”
Example:

The 4 charts below all cover the same instrument but viewed from different time-frames. While you can’t see the timeframes, you should simply look at the overall direction.

The first chart is a 10-min chart and the trend is CLEARLY up. The next chart is the 4-hour chart, and it could be interpreted as range-bound to bullish (up). The next is a daily chart and it looks range bound. The last chart is the weekly chart and it looks range-bound to bearish to me.

In this context the short-term trend is the 10-min chart, while the long-term trend is the 4-hour or the daily and weekly chart. If you view the same currency pair through the lens of different time frames, you will get a very different view, which can be confusing.

Each time scale provides a unique perspective of the market. It is possible for the 5-min chart to trend up, and the hourly trending chart to trend down, even though it is the same market you are looking at.

It is for this reason that I trade with the philosophy of “fading the short-term trend in the direction of the long-term trend”.

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The Time Frames

Weekly Chart

It is superb for the “great overview”. I put on an 89MA on virtually all my timeframes, for reference, and I judge that if the market is trading above the 89MA, then the trend is up. In the example above it is not possible to say if the market is trending above or below the 89MA on the weekly chart. If this is the case, you just have to accept that the market is not trending.

Daily Chart

The daily chart is a vital part of the daily work process because I use it for my 3-day rule. It is great for trend identification.

1 Hour and 4 Hour

These two time frames are great for swing trading, and for identifying patterns over longer time periods. It is also great for identifying support and resistance.

15-Min

It is a good timeframe to trade from, which can cover both the short-term and the longer-term. I use the 10-min and the 15-min after I have done all my preparation for the day.

Lower Time Frames

I frequently go down to a 5-min or a 1-min if I am looking for an entry. It means I already know I want to execute a trade, but I am attempting to gauge the market for obvious strength or weakness.
9. Daily Work Routine

The daily work routine is the process that I go through in preparation of the trading day. It may seem lengthy to you to begin with. It isn’t. It will quickly become second nature, and it should not take you much more than a couple of minutes per currency.

Although there are many currencies to choose from, I only look at the following currencies for my swing trading: Euro Dollar, Sterling Dollar, Dollar Swiss, Dollar Yen, Euro Yen, and Sterling Yen.

For my day-trading I only engage in 3 currency pairs: Sterling Dollar and Euro Dollar, and from time to time the rather volatile Euro Yen.

By only focusing on a few currency pairs, I gain a better understanding of the particulars of the instrument. Each currency has their own little quirks, which you get to know by observing them.

The Daily Routine Program

Weekly Chart

I use two different methods for deciding the trend on the weekly chart. They are important because they create my bias for the week. Having a bias means that I am looking for confirmation for the market to move in a certain direction.

For example if my bias is “long”, i.e. to buy the market, then I am looking for patterns that confirms with this viewpoint. It is not always an advantage to have a bias because it potentially leaves you without the flexibility needed to address changes in market sentiment.
Weekly Chart Method 1:

I use a simple method called the 3-bar break. I look at the previous 3 bars, the previous 3 weeks, and I determine what the highest high and the lowest low is for those 3 bars.

It is simple but it really works well.

If the market during the week breaks one of these two levels, either the high or the last 3 bars, or the low of the last bars, then I consider that a trend change.

Incidentally I do the same on the daily chart. The technique I use on the weekly chart applies to the daily chart as well. It sometimes gives me an early confirmation of a trend change.
The Euro Dollar weekly chart gives me a bias. On Sunday night, as preparation for the trading week ahead, I look at the most recent 3 weekly bars.

What is the high of the last 3 bars?

What is the low of the last 3 bars?

It is simple but it really works well.
Weekly Chart Method 2:

On Monday morning at 7am I make a note of the price in the Forex pairs I follow. I draw a horizontal line through this price level. I use this as my benchmark for being either bullish or bearish.

If the market is trading above the horizontal line, I am looking for bullish trading setups. If the market is trading below the horizontal line, I am looking for bearish setups.

This method is easy to use and is a great yardstick during the week.

Tip: when you use this technique, you will begin to notice how often the Forex market makes a significant move towards the end of the week, which will begin around Thursday between 8am and noon. I don’t know why that is, but I have observed it long enough to report it to you.

Remember my mentor’s words: you only see on a chart what you train your eyes to see.
The chart on the previous page shows two weeks’ worth of trading. The blue lines represent the opening level on Monday morning for the respective weeks. As I stated earlier, I find it a great method for keeping a bias long or short in the currency market.

The weekly chart and the daily chart is really the easy part of the analysis. It is not until I come to the 4-hour (and to some extent the 1-hour) chart that I am beginning to utilise the tools of technical analysis. The weekly and daily barometers are efficient, but they are not overly useful when it comes to finding patterns and confluences.

I often say the money is in the 4-hour chart. I think I will consider modifying that statement and include the 1-hour chart. What is more important than the timeframe you are using is that you are seeing the patterns, and the confluences. If you need a 20-min chart or a 2-hour chart to see it, so let that be it.
10. Patterns and Confluences

The 4-hour chart is the superior chart for finding support and resistance. It works incredibly well for identifying Fibonacci support and resistance as well. It is also exceptionally useful for finding trading targets with Fib extensions.

Fibonacci

Fibonacci numbers is a huge topic and I could write a manual twice the size of this on Fib alone. I will keep it fairly general for now though. There is no need to complicate matters at this point.

The chart below is an enlarged version of the small chart embedded in the lower right corner. You should be able to see the market making a top at 1.32003, and a 61.8% retracement at 1.29541.

This is a beautiful example of a 61.8% retracement, which immediately gets bought by the Forex traders. Don’t forget, we are all watching the same chart. It is a question of how prepared you are. However a 61.8% retracement may not necessarily hold the market. If you as a trader can find more than one reason to step into the market with your money, you increase your odds of success.
When I trade, and in particular when I swing trade over longer time-frames, I look for the following things on the chart:

1. Fibonacci levels such as 61.8 and 78.6%
2. Harmonic levels
3. Confluence of Fibonacci and patterns

I have introduced you to Fibonacci levels above. It is time to look at Harmonics, and Pattern Recognition.

**Harmonics**

When I explain Harmonics to people using charts they often understand it much better than when I attempt to explain it using words.

The best way to explain it is to state that the markets have a tendency to repeat their price moves. Markets are occupied by people (or computers programmed by people) and people are creatures of habit. Very frequently this “repetition” manifests itself in identical moves up or down.

On the Euro Dollar chart I have highlighted 3 sets of harmonics, with 3 different colours. The first instance (blue circles) Euro Dollar is in a downtrend, but makes a retracement of 105 pips. A few bars later, from a lower low, Euro Dollar retraces again, this time also 105 pips.
The idea of trading Harmonics is that once the first retracement is known, we look to sell short the Euro Dollar again, when the next retracement has reached 105 pips (or close to it).

When the first green circle happens, Euro is in an up-trend. The retracement first time around is 90 pips. The second time around is 88 pips (close enough!). The market resumes its up-trend.

The principle of Harmonics is easy to understand, but it may require some practise to appreciate and more importantly, to trust that it happens frequently.

More importantly, the concept of Harmonics supports the mantra of my trading:

I fade the short-term trend in the direction of the long-term trend.

In the case of the Blue and the Green circle, the market is trending, and the Harmonic moves are counter-trend. I use the principle of Harmonics to time my entry in the market.

Harmonics has another function. The Red circle demonstrates that. At the first Red circle the market is still in a down trend. The market however is now making a higher low and a higher high. On the second Red circle the market retraces exactly the amount of the first Red circle. It sends a powerful signal to the trader that a trend reversal could be on the cards.

I used the word “could”, because no matter how certain you are about something in the market, you always have to consider the possibility you are wrong.

Confluence

Now imagine that you can find a price level where you both have a Fibonacci ratio as well as a Harmonic pattern. This is what I call “Confluence”.

Confluence is the occurrence of more than one technical reason for taking a position in the market. For example, you may look at a chart and identify a price level where there is a 61.8% retracement between two swings, AND at the same price level, there is say a Harmonic occurrence as well.

In the chart on the next page, the GBP USD rate retraces 61.8% (the GREEN line) and also makes a Harmonic move (the two RED lines). The two technical terms, the Fib retracement and the Harmonic, completes at the same price level. This sets up a buying opportunity. There is “Confluence” at the price level where both the Fib and the Harmonics complete.

I have enlarged the original chart so you can clearly see the pattern. I have embedded the original chart as well.

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This is a pattern. This is pattern recognition. Some would call the Harmonic move an AB=CD. That is perfectly valid too.

The beauty of pattern recognition, the amalgamation of more than one technique is that it often doesn’t require a large stop-loss. This means the risk-to-reward is significantly in your favour, with a statistical edge. You have discovered a method which puts the odds of success in your favour.

It is time to round off this manual. I could provide you with one example after another, but I think I will leave it to you. My websites provide plenty of examples, and you are free to browse through them to satisfy yourself that this method works.

However, before I set you free and you start trading for yourself, I would like to send you off knowing that we discussed money management.

I also feel that I should give you a couple of entry techniques which can be used both as a tool for entering the market, using everything you have learned so far, AS WELL AS a stand-alone entry-technique.

We will first have a look at the entry technique called the 4-bar fractal reversal. It is a mechanical method and it is very efficient in detecting trend changes, especially on the 1-hour and the 4-hour chart.

Notes:
11. Trade Entry Techniques

4-Bar Fractal Reversal

The 4 bar fractal is a simple measure of a turning point. It is mechanical, so it is easy to explain and to implement. It is very reliable.

As the name implies, it is composed of 4 candles (or bars). It works in any time frame. The longer the time frame you are viewing it on, the more of an impact the signal is likely to have.

The 4-bar fractal is one of the most solid trend change indicators I know of. I owe David Paul for introducing this to me.

*If the CLOSE on this bar (1) is higher than the HIGH of the previous bar (2) and the Close on this bar (1) is higher than the HIGH of the bar three bars back (4), then we have a buy signal.*
You should be able to see from the chart above how the fractal works. It is simple, but who said that it had to be complicated for it to make money?
How does it work if it is a reversal from an up-trend to a downtrend?

This is explained below.

*If the CLOSE on this bar (1) is lower than the low of the previous bar (2) and the Close on this bar (1) is lower than the low of the bar three bars back (4), then we have a sell signal.*

Before I set you loose on the chapter on risk management, I have included two case stories for you to show you how what you have learned so far can be put to use. It is a story of two different kinds of traders and how they manage their trading.
12. Case Stories and New Entry Techniques

Case Story: David the Swing Trader

David doesn’t want to sit and watch the screen all day. He has other things to do with his time, so he carefully chooses the times when he watches the charts. He prefers to watch the currency market in the morning and again in the evening.

He uses a 4-hour chart and a one hour chart. There he is looking for currencies that are likely to continue the trend. If they aren’t trending (range bound) he leaves them alone.

When he spots areas where he would like to buy or sell, he inputs orders into the ETX platform. He places an entry order, a stop-loss order and sometimes even a limit order. He then checks his position again in the evening.

David makes use of the 4-hour chart to spot Confluences. He analyses the charts to identify places where the odds of a successful trade are high.

Example:

David views the Euro Dollar 4-hour chart and sees that there was a retracement in the most recent rally at point 1. He copies the line from point 1 and places it on the top of the most recent rally. This is point 2.
Now he sees that if Euro Dollar retraces by the same amount as at point 1, then Euro Dollar should hit the price of 1.3132.

Then he draws a Fibonacci retracement line from the last most recent low up until the most recent high. He sees that a 38.2% retracement is at 1.3132.

David now places a buy order at 1.3132 because it is a 38.2% retracement as well as a Harmonic move. His stop loss is 1.3095, which is below the 61.8% retracement level.

All David can now do is wait. He reviews the chart a couple of times a day. He repeats this process with the handful of currencies he is following.

David’s story is an example of how you can make trading work for you even though you have other commitments. There are those who would say that David gets the best of both worlds, because he is not there to watch the market move up and down during the day, so he doesn’t get emotionally invested in the charts, like so many traders do, leading to over-trading.

**Case Story: Tom the Intraday Trader**

Tom sits and watches the markets for large parts of the day. He is a Day-Trader. Although the term Day-Trader means something different, depending on who you ask, for Tom it means that he attempts to profit from shorter-term moves during the day.

It also means that Tom rarely holds a position overnight. It is not unlikely, especially if he is sat on a good profit, but he likes to close all his positions before he finishes for the day.

Tom has many different tools he makes use of. One of those is the trendline break after a fake-out. He usually trades a handful of times during the day. He trades some of the more volatile currencies such as the Euro Yen, the Sterling Dollar and the Euro Dollar.

He uses a 1-min chart to identify the pattern. He is looking for 3 or 4 tops, where he can easily draw a connecting line, touching all tops. He is also looking for the market to go below an old low (for buys), and then reverse back up again, and break the trend line.

Once he is in a position, he places a stop below the last low. If this low is further away than he likes, he reduces his stake size.

Because Tom trades quite frequently, he doesn’t like to risk more than 1% of his account. Otherwise he exposes himself too much to wild swings in his account.

Tom uses several screens so he can follow more than one currency pair at a time. Although the technique is simple, it is very efficient. However, if he gets a sense that the market is range-bound,
and not likely to trend, he attempts to spot it early and stay clear of the market. He also stays clear
taking positions before important economic news are released in the market.

You can find two examples on this simple intra-day technique on the next page.

A masterpiece is not made in a hurry.

I have no doubt that some of you will now make the assumption that David in the case story is my friend and trading partner David Paul, and I am Tom in the other case story. There is some truth in that, but I know David trades intra-day, and I certainly don’t stick to purely intra-day positions.

Trading is about finding what works for you. It takes time, but the longer you can stay in this game without blowing up your account, the more likely you are to find what works for you. Take your time. A masterpiece is not made in a hurry. It takes time. There will be set-backs. Expect it and persevere.

Chart shows a simple trendline entry technique coupled with a fake-out to the downside. This is a one-minute chart of EuroYen
Just as the chart on the previous page shows, this too shows a simple trendline entry technique coupled with a fake-out to the downside. Here it is a one-minute chart of Euro Yen.
13. Managing Your Risk

Risk management means how you allocate your trading capital. I suspect that quite a few people’s eyes glaze over with boredom when they hear about risk management. However, it would not be professional of me to write a trading manual and not discuss it. I will keep it short and sweet.

Before You Trade:

What is your proposed entry?

What is your proposed stop-loss?

That will answer how many points you are risking. Now you can decide how much you want to risk per point?

How big is your account?

What percentage are you risking?

Example 1:

- My account is £1000.
- I want to risk 1% of my account per trade = £10
- I want to buy DAX at 7920. My stop loss is 7910.
- Therefore I will buy £1 per point.

Example 2:

- My account is £10,000
- I want to risk 5% of my account per trade = £500
- I want buy Sterling Dollar at 1.5525. My stop loss is 1.5500
- Therefore I will buy £20 per point.

No one can decide for you how much to risk. Part of the trading journey is to decide for yourself what kind of trader you are. Do you like high risk trading? Are you prudent? Are you aggressive? Do you add to winning positions? Do you add to losing positions?

So many questions to think of and many you can’t answer until you have some experience under your belt. I quote a spiritual guru here when I say: start slowly and arrive safely.
14. Candlechart Patterns

I have included a few images of some Candlechart patterns that I like. I hope you find them useful as well. I try not to use Candlechart patterns, because I don’t find them all too reliable. Nevertheless it is good to know some basic Candlechart patterns, so I have included a few below.

The pattern above also works in reverse as a sell-signal around old tops. Some people call this pattern lost motion. It goes to show that there is very little new under the sun when it comes to technical analysis.
15. Further Study

Thank you for trusting me to educate you in the art and science of technical analysis.

I have deliberately kept the manual as short as I possibly could, without skipping any vital parts. I guess I could have included a lot more charts, but I hope the manual will serve as an inspiration to go and do your own research.

There is much more to learn of course. There are many other trading techniques, which could be of interest to you. There are time-frames to consider, markets to ponder, all of which lies ahead of you (assuming you are relatively new to this game).

It is an exciting journey, but it isn’t an easy journey. As a matter of fact I think this is the hardest way to earn a living. Do you know of any other professions where you go to work and you may not come home with a salary at all, but you may have had to pay for the privilege of showing up for work today.

Sure there are other risky professions, and I am not making the trading profession out to be any better or worse. At the end of the day it is a job with high rewards and high risks. If you don’t want the risk, then don’t trade the markets.

If I can be of any further help to you in your career, then don’t hesitate to ask. I run a live trading room, which trades live every day.

The website is www.whichwaytoday.com

I also run 2-day courses on technical analysis and trading techniques. You should be able to find a banner or the page describing the course on the website link above.

To be successful at day trading and swing trading you have to teach yourself to focus on the “right here right now”, and forget everything else. Trading is bit like a chess game. You have to think ahead, yet stay grounded in the present. It isn’t easy, but with practise it becomes easier.

I hope our paths cross one day so I can hear your story.

My final words to you are:

Believe what you see and not what you think – and take one day at a time.
“If we wait Until we ARE Ready we’ll be Waiting for The REST of Our LIVES”

_Tom Hougaard_

London 13th May 2013