MAXIMIZING PROFIT WHILE MINIMIZING RISK
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As you read this book, you will be exposed to multiple strategies that have high probabilities of success and/or high profit. Most of the strategies in this book are divided into three sections:

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Once you have read the chapter, you can view the complete webinar on the strategy. You will gain a better understanding of the strategy along with multiple examples not covered in the chapter. In some cases, the presenter switches in to live trading to demonstrate the strategy in action. In many of the webinars, the presenter also fields questions from attendees.

THE MOVIE
Once you have read the chapter, you can view the complete webinar on the strategy. You will gain a better understanding of the strategy along with multiple examples not covered in the chapter. In some cases, the presenter switches in to live trading to demonstrate the strategy in action. In many of the webinars, the presenter also fields questions from attendees.

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SOME OF THE THINGS YOU WILL LEARN IN THIS BOOK ARE:

• How to Spot Impulse Buy Retracement Setups
• How Forex Trading Differs from the Futures and Equities Trading
• The Magic of the 200 SMA and Why You Should Use It
• How to Confirm Your Entry and Exit with Confidence
• An Algorithmic Approach to Help Identify Future Price Movement.
• And much more

At TradingPub, it is our sincere hope that you take away several strategies that you can use when you are done reading this book. You will also learn about markets that you currently don’t trade, and you will find out if they are suited to your trading personality.

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There are 2 ratios that dominate professional traders’ thinking:

- The win/loss ratio of their trades.
- The risk/reward ratio of their trades.

Notice that I intentionally worded each bullet point above with the words “of their trades.” It may seem practical and objective to back test a trading system to determine these ratios, but what’s more realistic is to trade a method yourself over a significant, statistically significant number of trades, record your actual real-world results, and use these numbers as your own win/loss and risk/reward ratios.

I know traders who play one game or the other.

In other words, it’s not unusual for scalpers to have a very favorable win/loss ratio, but a risk/reward ratio of less than 1:1.

On the other side of the continuum, there are trend traders who have an excellent risk/reward ratio (making 3-5 times or more what they risk on their winning trades), but they have more losing trades than winning trades.

Both types of traders can be profitable as long as they know their numbers and keep the combined ratios in check so that they maintain the net results of their P&L in the green. In my own trading, I use both styles. I have various trade setups that have different expectancies. Some of my trade setups are designed to catch short-term high probability wins that put money in my pocket consistently. Other trade setups are designed to participate in long-term trends.
I like having tactics for both styles of trading because it allows me to trade under varying market conditions. You can only make as much money as the market provides (based on its range), and markets only trend approximately 20% of the time. Therefore I have a quiver full of trade setups designed for various types of market conditions.

This article is focused on trading for a high reward, while risking a small amount of money. Therefore I’ll focus on trend trading and its counter-part, trend reversal trading.

Being the author of the book, “Trend Trading For Dummies” (Wiley), I’m quite familiar with trading trends and it’s at the core of my trading style. The first step in my chart analysis is always to determine whether or not there is a trend.

Before we go any further, it’s critical to define the term “trend.” According to Webster’s Dictionary, the word “trend” means “to extend in a general direction.”

In that definition, the words “extend” and “general” clearly indicate that a trend refers to a long-term move. The fact that trading with the trend is designed to catch long-term moves therefore makes trend trading an ideal trading approach for cashing in on big financial rewards while risking a relatively small amount of money.

As mentioned above, markets don’t always trend. They don’t always follow through in long term direction up or down. Sometimes they consolidate and meander sideways for a period of time.

This begs that question, how do we determine when a market is trending? What objective method, tool, or measurement can we use to indicate that the market is making a long term directional move up or down?

Hindsight is 20/20 of course. Analyzing historical charts is always easier than actively trading the hard right edge of the screen where the future is unknown and therefore any trade we take will always have an element of risk.

To keep our risk small (half of the low risk / high reward equation) I use protective stops and hedge my positions with the use of options strategies.

But what about the “high reward” half of the equation? We need an objective measurement of when a trend is likely to begin.
There are many ways to do that. Some traders define a bullish trend as simply higher highs and higher lows, although such a price pattern can be a short-term moves.

There are a plethora of sophisticated mathematical calculations converted into indicators that can be used. I’d be dismissive if I said there was one “best” way to determine a trend.

Personally I’ve tried many different approaches over my decades of trading, and like most things in my career, I’ve returned to the simple basics.

The two most commonly used moving averages used by traders and investors over the years that I’ve known have been the 50 period simple moving average and the 200 simple moving average. I consider these to be the two most important moving averages.

Don’t attribute any type of “magic” or mystical numerology to them. They’re effective for the very practical reason that they are used by such a large number of market participants and as a result have a self-fulfilling prophetic nature to them.

Because such a large portion of the trading community watch these two moving averages, when the price of a market comes into those levels, people buy or sell off of them, or take profits into them.

They serve the dual purpose of support/resistance and trend indicators.

I consider the 50 SMA (simple moving average) to be the intermediate-term trend and the 200 SMA to be the long-term trend.

At this point in the discussion I normally receive questions asking why I don’t use exponential moving averages, or shorter-term moving averages, because “they follow price more closely.”

That’s exactly why I DON’T use them. I don’t want a moving average, or any indicator, that follows price. That’s useless since I can see what the price action is doing. I want something that shows me something DIFFERENT from what the price bars are doing. Looking for the indicators doing something different than the price action is actually what gives us high-probability setups!
Depending on your trading preference, you can trade trends based on the intermediate-term trend (the 50 SMA) or the long-term trend (the 200 SMA).

Trading the intermediate-term trend will provide you with more setups, but lower rewards simply because it’s gets you into shorter-term trends.

Trading the long-term trend will provide you with fewer setups, but higher rewards because you’ll be getting into longer-term trends.

If have an agile mind and can handle both perspectives, you can trade both!

In this article I’ll focus on the 200 SMA.

In the above chart of the S&P 500, the 200 SMA is the purple line angling up. One of the keys to successful trend trading is to enter EARLY in a NEW trend.

A very popular saying in trading is:

“The trend is your friend until the end.”

Then there’s the follow-up joke:
“How do you know when the trend is going to end?”
“Right after you get in!”

I know it feels like that sometimes, but the saying is instructing us in a very important lesson. Trends are long-term moves, but they don’t last forever. In order to get the best risk/reward ratio, it’s critical to enter as early in a new trend as you can. That leaves you plenty of time to participate in the majority of the move and enjoy maximum profits.

One potential optimal time to enter a new trend, using the 200 SMA is when price crosses it from one side to another.

In the chart below you see an example of the EURUSD crossing from above the 200 SMA to below the 200 SMA to begin a new down trend.
Entering the market short after the cross of the 200 SMA would have provided you with an excellent reward because you’re trading in the direction of the long-term trend and you’re entering that trend early.

Notice in the chart above, the market crosses below the 200 SMA and then comes back to test it as resistance before continuing down.

This is a frequent occurrence and an excellent opportunity for a trade entry. Notice the same retest of the 200 SMA in the chart below, this time in an uptrend.

We’ve seen examples with the S&P 500 daily chart and the spot Forex EURUSD daily chart, but this approach also works for intraday charts for those who like to day trading, and it can create some huge winners … IF you do it right.

Here’s an example of how to do it wrong on the e-minis 1,000 tick chart:
QUIZ: Can you tell what’s wrong with that trade entry?

The market is below the 200 SMA and the 200 SMA is going down, so we’re in a down trend right?

The problem is the timing. Remember the basic trading rule: Enter a trend EARLY in a new trend. This entry is too late to the party. All trends come to an end, and the longer the trend continues, the less likely it is to sustain.

Here’s what happened after that …

![Chart showing trend analysis](image)

Luckily the market did go down a little after that entry (the market won’t always be so kind), but comparing with the chart above this one, you can see how little of the potential reward you were able to get out of a long bearish move if you would have entered when the price bars initially crossed the 200 SMA.

Extended trends are very risky. There isn’t a high probability that the market will continue trending, thus lowering your win/loss ratio. But there is a certainty that you won’t get as good a risk/reward ratio.
Now if you waited for the next time the price bars moved above the 200 SMA (as shown by the arrow on the above chart), let’s see what type of reward was available to you in the chart below:

![Chart showing price bars moving above the 200 SMA](image)

Most importantly, not only was it a better risk/reward trade but it was a safer, more conservative trade. Also notice how the price bars responded to the 200 SMA when it first approached it from below. Price bounces off of it twice as resistance before breaking through above it. This is because a large number of market participants are watching, and responding to, that 200 SMA.

Trend trading is one of the most tried and true, tested over time techniques for making money in the markets. It’s an especially good method for making low risk / high reward trades.

But it must be done with care and skill. Entering a new trend early is key and staying in the trend for the full move is critical for making the most of the reward offered by a long-term move in the market.

To continue this lesson, you’re invited to watch a free video that builds on the foundation
laid in this article. The video was created specifically as a follow-up to this article and take you deeper into more details.

THE MOVIE

It’s a free video, and no opt-in is even required. It’s just there for your benefit.

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If you’d like more in-depth training, I also offer a free trading course which focuses on the difference between how amateurs and professionals trade that markets.

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ABOUT THE AUTHOR

Barry Burns is the founder and CEO of TopDogTrading.com. He is the author of Trend Trading For Dummies. He is also a regular presenter and contributor for several exchanges including the CME Group and Eurex, as well as the author of Top Dog Trading 5 Energy Methodology Plug-in for MetaStock.

He has been featured as a case study in the books Using Candlestick Charting: How To Earn High Rates of Return – Safely, as well as in The Complete Guide to Investing in Derivatives. Over the course of his career he has received several Readers Choice Awards in the categories of- Technical Analysis Web Site and Trading Schools- by Technical Analysis of Stocks and Commodities Magazine.

He is the headlining speaker at DayTradersUSA as well as Market Analysts of Southern California and the Canadian Society of Technical Analysis.
His speaking engagements have also included seminars around the country at many Wealth and Trader Expos. Barry Burns is the former lead moderator of FuturesTalk's chat room, guiding listeners through the open and close of each trading day. He is currently one of the featured Experts at Trader Kingdom.

He has focused his knowledge and experience by founding Top Dog Trading, to help students shorten their learning curves in becoming traders.
So you want to make $10,000, but risk only $.50. We’ll have I got a deal for you. I have a trading robot for $19.95 and it does over $2 million a week. Interested?

I’m just kidding. I just want to make sure you guys were paying attention. But seriously I know that is what everyone is looking for. Higher rewards with a smaller risk. After all, isn’t that what this book is called? *Maximizing Profits While Minimizing Risk*?

But is that possible? And by how much are we maximizing our profits? And by how much are we minimizing our risk?

For example, in the Global Trade Room last year in 2014, we called out over 30,000 ticks. That’s over $300,000. Just on three contracts. On the $10,000 account that’s over 3000% return on investment. And the best part.

Our stops were hardly ever over 7 ticks. And recently in 2015, a student of GTR took their $3,000 trading account and turned it into over $147,000 in just under 14 weeks. All the while maintaining a 5 tick stop on every trade.

So, of course it’s possible. Everything is possible. As for how much you maximize your profits and how little you want to risk, well that is up to the individual.

A $5,000 account and inexperienced trader will have a much different risk tolerance then a $500,000 account with an experienced trader.
How Do We Maximize Profits and Minimize Risk?

The Importance of “C”

In previous TradingPub publications, you might have heard of us talk about the A.C.E. method. A.C.E. stands for Ascending Crappy Elevator… Seriously, it doesn’t really mean that, I’m just making sure again you guys are awake.

It means **Anticipate, Confirm, Execute**. We are going to expand on this theory in order to show you how powerful it really is.

- **Anticipate:** You see the price starting to come to a certain level that you might want to take. You kind of maybe see a trade setting up. If it goes in this particular area that you drew from the night before you might think about taking a trade there…. That is anticipate. Not extremely important or difficult. But more of a preview of what might and could happen.

- **Execute:** The easiest thing in the world. The only part about trading that everybody in the world gets right. I mean seriously, how hard can it be? You click the buy button to buy, you click the sell button to sell. It’s that easy. Getting into the trade is very easy.

- **Confirm:** The big “C”. Confirmation is the key to any system or methodology when it comes to trading. Let’s face it, isn’t confirmation the key to small risk. If you could confirm exactly where the market will bounce, couldn’t you then set up a very small stop loss, thus reducing your risk?

This has nothing to do with a specific type of trader. This applies to every trader. What’s your style? Fibonacci, Elliott wave, breakout, support and resistance, pivots, highs and lows, EMA’s, pattern recognition and the list goes on and on. Whether it’s any of these you still need confirmation.

Say you’re a Fibonacci trader, and price is coming down to the 23.6% level. Do you take a long there? Or do you wait for the 38.2% level, 50%, 61.8%? Where exactly do you take it? And does it always bounce at that percentage? You need something else to confirm it. That’s why confirmation is key.
Here’s an idea. If we’re talking about risk, and risk is very closely related to stop and stop loss (in terms of trading), then why don’t you assess the stop loss first and then find your entry. Determine what your risk is, and then place your order.

Let me further explain:

In the Global Trade Room for example, we evaluate where our stop will be, and based on where our stop loss is and what we’re comfortable with, we then wait for the market to come and hit our entry so that it will accommodate our stop loss. I know that might be a bit confusing, so let me explain it a little different.

Say we are trading crude oil. The price of oil right now is 53.60. We want to go long and we see that a good stop loss is 53.35 because if oil drops to 53.35 then it will go a lot lower. So we only want to risk five ticks. So if our stop is 53.35 and we only want to risk five ticks then where should our entry be. . . . 53.40.

It’s really that simple. A big part of keeping losses small and risks at a minimum is being patient and disciplined, which I hate to say is what most traders do not possess. The really good traders have no problem being very patient and are very disciplined.

There’s a saying in trading. “We get paid to wait.”

That’s were patience and discipline payoff. You wait for the market to come to you, not the other way around. Never chase the market. At GTR (Global Trade Room) we always pinpoint our stop first and then look to get into a trade. We know our stops will hold. We call them smart stops.

Remember folks, the market is not random. It can’t be random. Why do you think you have so many traders that are consistently profitable every single year. Yes of course 93% of all traders lose money, but if the market were truly random, then everybody would be a loser and the ones who win would only be lucky. Let me tell you something. The same people can’t be lucky every day, every month, every year.
Let’s go back to the big “C”

Okay, so we touched on it earlier when we talked about the Fibonacci levels. Confirmation is key. The more confirmation you have, the stronger the area the market will react to. Let me show you an example. Look at the image below:

Let’s analyze and explain this image.

First let me tell you all that this image is based on a one minute chart. That means that each bar represents one minute.

Now onto the explanation:

1 Trend Line (drawn from higher time frame)

Yeah that’s pretty self-explanatory. But let me give you a cool little tip. Trend lines can be very powerful but when taken from a higher timeframe, they become even more powerful. Now good way to do this is to take a higher timeframe trend line and plotted
on a smaller time frame chart (the chart you execute your trades from).

**Further explanation:** It’s a very good idea to take your trades from a very, very small timeframe. But, it’s also a good idea to anticipate and set up your trade from a higher timeframe. Regardless if you are a minute trader, tick trader, range trader, Reno, etc. if you execute your trades from a 4 range chart, then go to a 32 range chart for example and draw your trend lines. Or a 60 minute chart or a 120 minute chart. Then overlay these trend lines onto your smaller time frame. This will make your trend lines so much more powerful.

**2 EMA**

EMA stands for Exponential Moving Average. This is a standard indicator in pretty much every trading platform. There is no specific EMA to use in this scenario. Use the EMA of your choice. If you don’t use an EMA that’s fine too. Replace it with something else you do use or remove it altogether.

**3 PP (or R1, S1, or any S&R level)**

PP stands for pivot point, R1 stands for Resistance 1, or first resistance. S1 stands for Support 1, or first support. Any S&R level, means any support and resistance level. So basically in this one you can use any type of support and resistance that you normally would use during your everyday trading.

**4 GTR Proprietary Rejection Level**

GTR (Global Trade Room) has a few proprietary indicators that we use in our everyday trading.

- **Price Magnet** - this indicator draws horizontal lines where price will eventually go, like a magnet. Thus the name. It works amazing both as a target (as in profit target, if you’re in a trade), and as a rejection level.

- **Volume Profile** - you may have heard of this before, but using it the way GTR uses it is a completely different animal. It’s the difference between just seeing or owning a car, and driving it like a Formula One race car driver. This is our main vehicle. The one we used to know exactly where the market will go or stop. This is the one indicator that is leading as opposed to lagging and proves that the market is not random.
✓ **Power Lines** - these powerful little levels are a hybrid of trend lines, footprint, unfinished business, and a powerful algorithm which when put together, make for an amazing indicator. They automatically draw on your chart and have the look of a trend line, but are extremely more powerful.

✓ **DRL – Dynamic Reversal Levels** (Newest Edition) - these new levels are a combination of multiple confirmations and algorithms coming together as one. They also print automatically as a small horizontal line at a specific price and they are dynamic so they move around throughout the day. Now when these lines line up with some of your other confirmations, look out!

*NOTE: You do not need GTR’s proprietary indicators to implement this strategy/technique.*

In fact, you don’t have to use any of the 5 indicators we showed you above. You can use 5 completely different ones. You don’t even have to use 5. You can use 3, you can use 7.

**5 Fib Level**

A fib level is a Fibonacci level. Fibonacci levels are also a standard indicator in every trading platform.

You guys see that blue box that I drew in the center of the image right at the 50% Fibonacci level? That’s where all five confirmations came together. That’s where price reacted and came down hard. In fact a few minutes later it reacted again.

Remember folks if you use a fib level and only a fib level then how do you know which fib level to use? If you are using pivots only. Which pivot is the price going to stop at? PP, R1, S1. How about EMA’s, how about trend lines.

Most important. If you only use one of the indicators above then where is your stop? The next pivot? The next fib level? The next EMA? In the above scenario that could be anywhere from 10 to 45 ticks.

But if you wait for 3 to 5 or more confirmations to come together to the same price near the same area, then that becomes a powerful entry with a very small stop thus
reducing your risk. Our stop loss on the scenario above was only 5 ticks. Our profit was 35 ticks. That is how you reduce your risk. Confirmation, confirmation, confirmation.

Will this always react? No, but it will the majority of the time. And as a trader that’s all you can ask for. And when they do react, their success far outweighs the levels that did not react.

Will we have fewer trades? Of course you will. But they will be much more powerful. That’s where patience and discipline come into play.

Remember folks, if you’re trading just to trade. Meaning, “I always have to be in the market.” Then this method might not work for you. Remember, the goal here is to minimize our risk and maximize our profit.

In trading, as in life, when many things come together in one place at the same time. Something will happen.

**Little Story**

I spoke a little earlier about it. But many of you might have read or have seen the website or seen an article about how GTR (Global Trade Room) called out over 3,000% live in the room in 2014. This was based on a $10,000 account and trading 3 contracts, which finished the year at over $300,000. On all trades, the first 2 contracts would come off at target 1 (3-5 ticks), and the last contract remaining would be left in as a runner. Yeah I know it sounds like a lot, but each and every trade was recorded. And we did not count trades that students could not get into. Keep in mind our stop losses averaged around 7 ticks. Sometimes 3 to 4 ticks, sometimes 9 to 12 ticks, but for the most part right around 7 ticks. In futures trading that’s considered a small stop.

**Moving forward, 2015**

In March 2015, a new student in GTR took the live calls to a whole new level. Regardless of the stop loss he would place his stop at the same low number (which was less than our 7 average). And he would never scale out. Just keep moving the stop. So he minimized his risk and increased his profit.

Did he have a lot of stop outs? Sure. Did he have a losing day? No. And?

Yeah, yeah okay, let me get to the point you want to hear.
The end result was this:

✓ Starting account balance in March, 2015 = $3,000

✓ Number of trading days = 70 (14 weeks)

✓ Number of losing days = 0

✓ Account balance after 14 weeks = $147,000

Folks that’s 4,900% Return on your money in just 14 weeks.

Folks this isn’t meant to brag or to show off about anything. It’s meant to show you that you can start with a very small account and very small risk, and substantially increase your account.

Like I mentioned earlier, GTR did 3,000% in 2014 52 (weeks). And a student in the room, with an even smaller stop loss than our already small average of 7 ticks, went on to almost double that in just 14 weeks. Regardless of the amount of contracts that student traded, they left them all in as runners (contracts that are left in the market to just run and are usually trailed by stops). This student essentially, Minimized Their Risk, and Maximized Their Profit. Yes it can be done.

CONCLUSION

So in closing guys/gals, keep in mind that you’re in charge of your own risk. You decide what size and where risk should be, not the market. Don't let the market dictate what you are going to lose or profit. Actually, I’ll take that back. The market will have something to say about your profit but you will be in full control of your loss.
You can set that stop loss to anything you want. But of course do not just randomly take entries and randomly place stops.

Remember one thing everyone. You have to let trades go. Regardless of the trade. Once it's over move on and let it go. That's something very hard for a Trader to do. So if a trade takes off without you, or you get into a trade and it happens to be a stop out move on to the next trade.

And remember another thing. A bad trade and a losing trade are not necessarily the same thing. Learn to differentiate between those two. If you get into a trade that you feel is good, everything is lining up, you got confirmation left and right and it just happened to get stopped out . . . . So be it. It was a good trade that ended up being a stop out. A bad trade is a trade that you took out of greed out of revenge, or just to take it. So realize the difference, it'll make you a much better Trader. If you learn to wait for the trades you can minimize your risk. Above all never ever chase the market. Always let the market come to you. It usually always does.

THE MOVIE

Please [CHECK OUT THIS SHORT VIDEO](#) that shows a trade that starts off with a 4 tick stop and moves on to over 200 ticks of profit.

THE SPECIAL OFFER

As our way of saying thank you for downloading this EBook, we would like to extend a 25% discount toward becoming a [Global Trade Room](#) member. This offer comes with a FREE 3 days trial with full access to the [Global Trade Room](#) live room. If in those 3 days, you are unsatisfied for any reason, we will refund your membership no questions asked. Just email us at [info@globaltraderoom.com](mailto:info@globaltraderoom.com) and make sure to mention Trading Pub and this book title- [Maximizing Profits While Minimizing Risk](#)

And as always you are all invited to our [weekly free trial](#) every Tuesday morning from 7:30 AM EST – 12:30 PM EST.
ABOUT THE AUTHOR

Simon Jousef- “The Professor” is a licensed CTA (Commodities Trading Advisor). Mr. Jousef, holds a B.Sc. in Physics.

After intense research, Simon discovered a hidden phenomenon within the markets’ price action or volume. He witnessed a formula of numbers that keeps attracting the price back to them, a phenomenon he now calls trading magnets. Similar to black holes in space, the brackets pull or magnetize the price back to its origin, to the tick. With this new found information, Simon entered live trading competitions and in June of 2006, he was listed as one of The World’s Top 5 Forex Traders. - Fxtrader.net

In 2010 and with the help of programmers, he developed an automated indicator called Trading Magnet, which was initially designed for futures markets such as Crude, Gold, and Indices but it works equally as well with stocks, options, and spot Forex markets.

Today he trades his live account in front of students and teaches the exact same strategies and tape reading methods he used during the live trading competitions daily during his live trading room sessions at FuturesFx.ca and GlobalTradeRoom.com
Complete Currency Trader’s primary trading philosophy is based on exploiting individual currency strength and weakness.

The principle idea of buying strength and selling weakness is as old as speculative markets themselves, and is indeed a fundamental key strategy for investors in all marketplaces. However, when it comes to Forex, the idea is lost on all but a tiny minority of traders. By far the majority of amateur retail traders participating in Forex speculation ignore this winning strategy (or are simply unaware it even exists).

The aim of this chapter on Forex is to educate you on how currencies ACTUALLY move in the Forex market and encourage you to look at the market in a different way. This is a style of trading which looks at individual currencies rather than basic pair charts, and then matches strong currencies against weak ones, to give you a real and genuine edge that you can exploit for your own future benefit.

**Introduction**

Knowledge is Power!

Never forget that simple unobtrusive statement. Knowledge gives you the power to achieve whatever you want to achieve. Knowledge increases your abilities and capabilities.

Most people approach Forex on the assumption that finding a “system” is all that is needed to become profitable. “Enter here when this happens, exit there when that happens”. They are so very wrong in that assumption. All systems are worthless in the hands of people who lack knowledge, understanding, skill, and experience. I often use the analogy of cooking. Being given the recipe and instructions to prepare a 4
course meal to serve at the Dorchester hotel in Mayfair, London, does not mean you will be able to do it. Having a recipe does not make you a Michelin star Chef.

A great Chef knows how to “cook” and can therefore cook any recipe successfully. Someone who doesn’t know how to cook, or lacks the knowledge, cannot cook any recipe regardless of how clear and concise the instructions are.

So it is with trading. A great trader can trade any system well, whereas a bad trader will never succeed with any system, no matter how simple or profitable it may be. It is not the system that fails, just as it is not the recipe that fails, but rather the person using the system or following the recipe.

If you do not know how to trade you will never succeed, and this is the reason the vast majority of amateur traders never advance. Most people focus all their attention on trying to find a system that will make them profitable, and they completely ignore their education and knowledge. Trading knowledge is more important than a trading system!

Please keep this in mind as you work through this Forex. The principles behind the system I teach you are sound and robust and do work. I exploit these concepts every single day myself, but that doesn't necessarily mean you will pick it up and be profitable with it from day one, because as yet you lack the knowledge and experience required to be a good trader. Hence the reason you are reading this in an attempt to better yourself, and for that you should be commended; you’re on the right approach.

What you are going to read and learn in the following pages is an introduction to the principles and concepts behind real currency trading. Trading with an edge that actually means something and is based on reality that has bearing in the Forex environment. This WILL increase your knowledge; it WILL further your education; it WILL put you on the right path to success!

I hope it will spark your interest and desire to want to want to take things further and really explore this approach in much more depth. This Forex is a start but it is not the complete journey. That still lays ahead of you, and I am confident the following pages will accelerate your progress along that journey tenfold.
“Toto, I have a feeling we’re not in Kansas anymore!”

How many books, courses, blog posts, and forum discussions have you read, which are supposedly aimed at Forex, but where examples are given from other markets such as stocks and indices? The Spot Forex market is NOT the stock market, or a Commodities market, or Derivatives or anything else. The Spot Forex market is unique! It’s exclusive! It’s unlike any other market in existence or in the history of humankind.

If you trade the Spot Forex market for speculation you are NOT trading any other market. You’re participating in something completely different. You’re not in Kansas anymore!

Most people do not realize just how different Spot Forex is, and this is where they make their first mistake which has a knock on effect for everything else they do.

The Spot Forex market is not only slightly different; it’s entirely different on a fundamental level. It’s different in terms of “why” it exists. It’s different in terms of how it functions.

it’s different in terms of who uses it and why they use it. It’s different in how prices move. It’s different in every conceivable way!

To begin with, the Spot Forex market is there to facilitate international trade. In other words it’s there for business purposes. It is a largely non-speculative market!

82% of all transactions in the Spot market are made for non-speculative reasons. That means the people making those trades are not doing so for the same reasons as you and I. Why is that important to know?

Because it means the majority of people who trade in this market are not interested in the price, or where it’s been or where it’s going like we are.

They are not looking at charts, they couldn’t care less about some arbitrary lines anyone has drawn.

When you go on vacation, you trade in the Spot market. You exchange your home currency for the currency of the country you are visiting.
You do this out of necessity, not for speculation. You need the foreign currency in order to eat, shop, and enjoy your stay. You wouldn’t decide not to exchange your money because the price was near a trend line that you had drawn!

Businesses are the same. They need to exchange one currency for another in order to conduct their day to day business, and therefore when BMW in Germany need to buy aluminum from the USA, they are going to exchange Euro’s for US Dollars, regardless of any patterns on a chart that they’re not even looking at.

(Note: if they are concerned about future price changes, they will hedge their transaction in the futures market with options, but these do not mean anything to us in the Spot market) This phenomenon makes the Spot Forex market an extremely random one, more so than almost every other market.

Speculators like you and I make up a tiny proportion of participants in Spot Forex. Retail traders account for only 4% of the market volume. Major hedge funds account for only 14%. We are a minority and account for a small percentage of the daily volume and daily transactions that are made.

With Forex being so different to other markets, why is it that so many people attempt to trade it with the same principles and strategies as are used in those other markets such as stocks?

The blunt answer is because at face value, the charts you see in currency markets “look” the same as you would see in any other marketplace, and most people are too lazy or uneducated to see beyond what is presented to them at face value.

People lack the knowledge and education to realize that looks can be deceiving, and they believe whatever they read in amateur forums.

The information being displayed graphically on a currency pair chart is the same as what you would see on a chart of Gold, or Oil, or a stock, or an index etc.
It’s just the open, high, low, and close. So if you were to trade the Gold market you would see this type of chart. If you were to trade a stock market you would see this same type of chart.

So when amateurs look at a currency pair chart, because it looks the same as the charts you see in other markets, they think it is the same, they think it is an actual market in its own right the same way Gold is a standalone market, so they attempt to trade it with the same strategies they would use to trade a more traditional market.

But just because something looks a certain way doesn’t mean it is how it looks. If you were to stare in to the sky, it looks as though the sun is circling around the earth.

People used to believe that because that’s how it looks. But we know it’s the complete opposite and the earth circles around the sun.

Looks can often be deceiving and that is the case with currency pair charts.

You see this all the time and you hear traders talk about how they trade the EUR/USD or GBP/USD for example.
You hear them talk about their favorite pair and you see systems being sold that only work on certain pairs. This is ludicrous. If a system works it should work on any and every pair.

This is indicative of how most people view currency pair charts.

They think each pair is a separate and isolated market.
When a person trades EUR/USD they think they are trading a market just like trading Oil is trading a market. But the EUR/USD is NOT a market.

A currency pair chart is a fraction of a market. It is one tiny part of a market!

This is another fundamental factor which makes Forex so different to everything else.
In reality what you have is multiple markets that are all brought together, crisscrossed, mixed and matched, and jumbled together.

The USD is a single currency belonging to a single economy. The GBP is a single currency belonging to a single market economy.

The JPY is a single market currency belonging to a single market economy, etc, etc. They are each markets in and of themselves.

The Forex market is what you get when you bring all those separate markets together in to one melting pot. It’s made up of the Euro, Pound, Swiss Franc, Yen, US, Australian, Canadian and New Zealand Dollars, and 28 separate pair combinations. And that’s just the majors.
So when you look at a single chart like the EUR/USD for example, you’re only seeing a tiny fraction of the market. 1/28th of the market to be exact.

The majority of information pertaining to that chart is actually not in that chart at all. It’s contained out in the wider “real” market.

Remember that in the EUR/USD chart there are two currencies: the Euro and the US dollar.
If you want to be able to trade the EUR/USD chart effectively for maximum profits with minimal losses, you first of all have to know what’s happening with the Euro as an individual currency and the US dollar as an individual currency.

This is the way professional Forex trader’s trade that other traders simply don’t even consider. We look at the real market before we make any trade decisions.

We have all this other information pertaining to each individual currency to draw on to help me make the very best decisions at all times.

My trade decisions are much more informed than the average trader.

The key to maximum profitability in Forex is to analyze individual currencies, and assess their separate strengths or weakness first and foremost, and then match the strongest individual currency against the weakest currency and select the most appropriate pair to trade based on that extra information.

We will come back to this concept later in the Forex, but for now this initial chapter should serve to help stress how fundamentally different Forex is to other market places, and therefore help you appreciate just how important it is to take a different approach when trading it.

How Prices REALLY Move in the Forex Market

This may seem like an odd chapter to include, because after all, most people “know” that prices move when buyers and sellers interact. They “know” that an uptrend happens when there are more buyers than sellers, or a down trend happens when there are more sellers than buyers, right?

Wrong! That’s complete nonsense! This is another difference between Forex and many other markets.
With stocks for instance, the prices you see are the last price that a transaction was made, the last price two people actually bought and sold to each other. So for the price to move or change, someone has to buy or sell.

There has to be an actual, real, physical transaction. This seems common sense and is what most people assume happens in Forex, but it isn't the case.

The Forex market is an auction market. The prices you see are the prices someone is “willing” to buy or sell at. Think of a normal auction where you may be trying to buy a painting.

The price starts low and gradually goes higher and higher as people bid more and more.

So the price is changing and rising constantly even though no one has actually bought anything and the painting hasn’t been sold.

That’s what it’s like with Forex! The prices can actually move without any buying or selling happening whatsoever. All it takes is for people to alter their bids or offers.

In other words, if someone says they are willing to sell at 1.01, you will see that price quoted on your chart.

But if they then change their mind and say “hey, actually I want to sell at 1.05 instead”, then the price on your chart will move from 1.01 up to 1.05.

No buying or selling happened at all. Someone simply changed their mind about the price they were “willing” to sell at, and the price on your chart moved up to a higher level.

**The prices moved without any buying or selling happening!**

It all comes down to the BID’s and OFFER’s in the market; the quoted prices you see on your charts that people are willing to buy and sell at, and how these prices are added or removed from the market. This is what happens at news release times. You often see huge spikes in price which may shoot down, whipsaw back up, and then eventually settle back to exactly where it was before the news came out.
Amateurs look at that and think it’s the result of panic buying and selling, and confusion or indecision amongst buyers and sellers. It’s neither. It’s simply a result of market makers removing their BID’s and OFFER’s from the market.

There’s no buying or selling happening at all. Have you ever tried placing an order during these times? You don’t get filled do you? Or it takes an age to fill, and your trade is opened a long way from where you wanted it.

This is because there is no one in the market willing to trade with you. All you’re seeing is the prices rising or falling as market makers say “hey, I have changed my mind, I don’t want to trade at X price, I want to trade at Y price”.

Prices will move in Forex when BID’s and OFFERS are removed, and they can either be removed because the entity quoting that price changes their mind and changes their price, or because someone takes that price and trades at that level.

Let’s suppose you and I are both speculators, both trading with the same broker, and we are both looking at the EUR/USD pair.

I want to buy 100,000 and you want to sell 100,000, so we both hit our order buttons.

Most people think that we would be matched against each other, so we would buy and sell from each other and that’s what causes the price to move.
That’s not true and it’s not even possible.

If I submit a market buy order and you submit a market sell order, it is impossible for us to trade with each other as retail traders. Market orders can only be matched with limit orders.

Limit orders are the BID’s and OFFER’s you see as the quoted prices in your platform.

That’s the prices you see which are set by market makers. Limit orders used by market makers provide liquidity. Market orders used by people like you and I, consume that liquidity.

So my market buy order consumes the liquidity in the OFFER price. Your market sell order consumes the liquidity in the BID price. If we both submitted the same size order at the same time, the spread would widen because we consumed and removed the liquidity for the narrowest bid and offer in the market.

Price is More Likely to Move in One Direction Rather Than the Other

When you understand the micro-mechanics of an auction market as described above, you can actually determine which direction the price is most likely to move next, because prices in Forex are more likely to move in a certain direction, and when you know that, you have a real edge that you can exploit for huge profits.

It all comes down to liquidity – BID’s and OFFER’s. The prices quoted on your charts are the result of BID’s and OFFER’s, and the number and size of those quotes, determine the amount of liquidity available in the market.
This is the kicker: **Price is more likely to move in the direction of least liquidity!**
And this little known fact is what professional Forex traders exploit for intraday trading. This is what gives us a real edge.

**CONCLUSION**

The system you have been shown is merely an introduction to trading with currency strength analysis. This is not a comprehensive course, nor is it anywhere near adequate education for you to be able to call yourself a master trader. This has not been designed to turn you in to a professional hedge fund trader. This is intended as a stepping stone, a first taste of what currency strength analysis can be like. This is hopefully your first foundation on which to build from here on out.

I hope this opens your eyes to the possibilities available to you when you trade with a real edge the way professionals do. I hope this ignites enough desire in you that you genuinely want to finally learn to trade, properly.....I mean “really” trade, with all the skill, knowledge, and capability that gives you lasting financial independence.

**THE SPECIAL OFFER**

To learn more about developing your trading edge [CLICK HERE](#)

**ABOUT THE AUTHORS**

In a profession where profit over loss is the only thing that counts, Complete Currency Trader has redefined the field of Forex education and continues to forge the most acclaimed reputation in the industry today.

Since inception, James Edward’s vision of excellence continues to guide our beliefs, actions and ambitions. Located in London,
Complete Currency Trader is the definitive trader development company, delivering the most accomplished training for the world’s most lucrative financial market. Our prestige emanates from masterfully combining the professionalism of an international corporation on the one hand with the personal service and care & attention of a local run business on the other.

Complete Currency Trader stands for more than the usual list of superlatives. Our track record of success and adroit ability to train skilled traders has established our prominence around the globe as a hallmark of absolute quality. Learning with Complete Currency Trader isn’t simply about attaining knowledge, but rather about enabling you to perform at the most sophisticated levels in the markets.

For you, it means experiencing the unrivaled thrill of achieving impeccable personal results. Our mission is to elevate you to the top tier of unsurpassed superiority as a self-reliant, independent trader. The master of your own fate.
A trading system supports you in predicting the potential price move of an asset into the short- or longer-term future. There are pre-stages and continuation-stages of price moves that can be detected and portrayed into the future by using mathematical equations. Financial markets are complex and thus, simple mathematical models, e.g. moving-average-based systems or those that are form-fitting the future development into a pre-defined-price-pattern (Elliott Wave), will only give you a random chance of being on the right side of the trade.

Nature is expressing itself in complex systems. Take a look at a school of fish how it produces a combining and releasing structure of constant movement.

So far we found no mathematical algorithms to describe or predict the formation of a school of fish from an outside-in-perspective.
If you are serious in understanding complex behaviors, you need to look at the basic inter-correlations of the individual system interactors (individual units interacting with each other), rather than the system itself.

Example: the crowd follows the leaders.

The financial markets represent a complex structure of interactors, where most, and in particular the transactions we want to focus on, take place in a market: A medium that allows buyers and sellers of a specific good or service to interact in order to facilitate an exchange. The price that individuals pay during the transaction is determined by supply and demand.

As a consequence, a change in supply or demand will trigger a price change, which is recordable and can be followed. This principle accounts for the transactions and price finding in the key financial markets: Stock Market, Commodities, Treasuries, and Currencies.

Following this principle, we found ways to identify changes in supply and demand that indicate setups, which lead with a high probability to a directional price move.

Today, we want to focus on our introductory system to algorithmic- or activity based trading. We will use TradeColors.com to demonstrate how you can predict the future price move of an asset with a high probability by following a price continuation pattern, portrait in an opposite candle color sequence of two-same-color-candles.

“Trading now is made for me, counting colors, one-two-three”

TradeColors.com Candle Color Sequence
With the help of an activity based algorithms, we paint the candles that belong to an **upside price move** in **blue** and the ones belonging to a **downside price move** in **red**.

Your long-term goal as a trader or investor is to enter directional price moves at key turning points; hence, we start entering a trade at the following conditions:

**Short Entry:**
After a blue candle or a sequence of blue candles, when two red candles are painted:
You enter a trade, when the low of the second red candle is surpassed.

**Long Entry:**
After a red candle or a sequence of red candles, when two blue candles are painted:
You enter a trade, when the high of the second red candle is surpassed.

In our first example, we take a popular stock: AAPL and see how it performed in its recent price development according to the **TradeColors.com** conditions.
The most recent daily chart for AAPL looks as follows:

Let us investigate the above chart from the left to right, checking for setups that fulfill our trade entry rules:

- A new set of two-same-color-candles with the high of a blue sequence surpassed in the price development of next candle.

- A new set of a red-candle-color-sequence, where the low is surpassed in the price development of the next candle.

Background: When an institutional price move happens, market makers and other market participants recognize a change in supply or demand and react by confirming the direction – and we go with the price move - or by other institutions not buying or selling into the move and we stay out of a directional trade by not getting our trade entry condition confirmed.
AAPL Daily Chart: First Confirmed Trade-Color-Sequence Highlighted in Orange

We found our first trade setup sequence on May 15\textsuperscript{th}, 2015 (highlighted by the orange rectangle) and it was validated by the May 18\textsuperscript{th} candle surpassing the high of the prior candle.
From there, we move on and see:

May 27, May 28 another blue-candle-formation with an entry on the high; however the high was not surpassed in the next candle and the trade entry conditions were not fulfilled: No Trade.

Right after: A red candle sequence was formed and confirmed (second orange highlighted rectangle). We establish a short position.

In case you are trading from an IRA or another type of cash account, you would buy Puts at this instance to trade with a long position to the downside.

By teaching individually, we will share the NeverLossTrading concept for options with you, which includes a clear method of which strike price you buy and in case a trade goes wrong, how you can even repair your trade to not suffer the consequences of a high loss of premium.

Between 6/10 and 7/2/2015, AAPL produced multiple potential two candle setups; however, none of them got confirmed and thus no trading position was established.
Rather than being on the wrong side of a trade when asset prices start cycling or moving sideways, you are not receiving a trade confirmation and thus, you stay out at the sidelines until prices start to move again, which was the case on July 6 and 7 of 2015:

A read two-candle sequence was formed and confirmed.

Then right after, we got into a two blue candle sequence at July 10 and 13, confirmed on July 14, 2015: Check for the third and fourth orange rectangle, highlighting the confirmed trade setup by the price of the next candle surpassing the high of a blue- or the low of a red candle color sequence.

**AAPL Daily Chart**

Summary:

Following the *TradeColors.com* concept, we had four positive trades on AAPL in a period of two months and six potential trade setups that mostly would have resulted in a loss, which we were not dragged into by the trade entry conditions not being fulfilled.

This defines how to enter a trade; however a good trading system besides clearly rule based entries, provides you with clearly defined exit rules. *TradeColors.com* lets us
differentiate:

**Target-1:** For the momentum based trader, exiting after a pre-defined price move.

**Target-2:** Expected maximum price move for the momentum- and trend trader.

**Trailing Stop:** Catching a longer-term price move by trailing the stop or adjustment level (not covered in this publication).

**Stop:** Exiting or adjusting the trade, when the price reaches a pre-defined price point.

In this article, we focus on momentum based trading: Let us go back in time, to the first trade on May 15th 2015: The top left corner of our trading chart contains a dashboard with the following information:

**TradeColors.com Dashboard or Price Move Approximator**

![TradeColors.com Price Move Approximation: $2.11 1.7% 2-C Hi/Low $2.33](image)

The first number represents the expected price move to target-1: $2.11, which would give you a 1.7% return on cash.

Next, we take the target-2 price information from 2-C Hi/Low = $2.33, which is an approximation for the maximum expected price move. The second target is defined by the difference of the absolute high – low of the two candle color sequence.

We highlight both targets as blue dashed lines on the chart.

When you compare the two numbers, the expected- and maximum expected price move are very close to each other, which is usually not the case. You will see in the actual price development, why having this information was very crucial to harvest at the full potential of the price move and not getting stopped for a lower return in the duration of the move.

To give the price an adequate wiggle room to come to target, the stop or trade adjustment line is defined by subtracting 20% of the price move approximation from the low of the second blue candle.
Stop/Adjustment Calculation: Trade candle low ($128.21) – 0.2 x $2.11 = $127.79

The stop or price-adjustment-level is put as a red dashed line on the chart.

A trading system shall deliver repetitive trade setups with defined entries, defined positive exits and defined stop- or trade adjustment levels.

Let us check how things worked out:

**AAPL Price Target and Stop/Adjustment Level for the Trade**

When signing up for our mentorship, you will receive computer programs to support you in getting all those calculations done in seconds. Before we go there, let us give you the details:

For the trade entry, we add 2% of the price move approximation (four cents) to the high of the trade initiation candle. Following this principle, allows you to auto-deliver your order as Buy-Stop-OCO, with no need for you to sit in front of your computer at market opening.

**Buy-Stop:** $129.49 + 2% of $2.11 = $129.53 (you only trade when the price reaches this level)
Target-1: $130.60

Stop/Adjustment: $127.79

Reward: 1.6% on cash.

Risk: 1.3% on cash; however, you can learn to reduce the risk drastically by applying trade adjustment methods.

In your 4-hours of individual training, we leave it up to you to decide if you want to learn to operate with trade adjustment methods or rather focus on exiting the trade at the stop. There are advantages and disadvantages to both ways of trading and we share the financial and time based models to give you the background for a sound decision making.

Making your life easy, we share the following model with you, where you just add the trade candle information.

Trade Evaluation Model for TradeColors.com Setups
After you populated three entry fields, you are getting a feedback on the trade setup you picked, including a calculation for a potential positioning size in relation to your overall account holding: in this cases $13,989 for stock trading or $1,908, when trading with a Call options.

How did the trade pan out? The following chart will show: The price for AAPL moved right to the approximated target-lines and then reversed.

Why did this happen?

Institutional sell orders increased the supply side of the trade and prices dropped.

Key Findings:

- Directional price moves do not last forever.
- The momentum trading to target-1 has a higher probability for success.
- The method of trailing stops to target-2 was not explained yet.
- We choose our position size according to the reward/risk level by using the above model.
- Target-1 shall be reached in next 1-3 candles, which gives you another hint, for a time based exit, if your target is not reached after five same color candles.
- When you trade for shorter-term targets, you are in need for a trade finder: giving you stocks with the favored price setup.
- Similar models and concept are available for Futures and FOREX Trading.
How do you stay engaged by finding similar trades?

We know your pain of finding high probability trade setups; hence, we are offering three solutions:

A) Subscription to the referring NLT Alert ($99 for the TradeColors.com Alert).

B) Scans with NLT Top-Line

C) Watch List Evaluation with TradeColors.com

The TradeColors.com watch list with indicators is the new addition, helping you to evaluate your preferred assets, highlighting potential trade setups: **Up-Sequence as +1 and Down Sequence: -1.**
A simple click on the column allows you to filter assets, which triggered a two candle color sequence. The above table shows one daily and one 1-hour signal for the observed currencies: In the chosen Focus Currency list, the Canadian Dollar Future showed a one-hour short signal setup, pointed out by a -1 in the first column.

On a daily basis, the pair GBP/USD and the future for the British Pound show a short signal.

When you sign up with us, we program up to four individual time frames for you to filter for assets with our TradeColors.com candle sequence.

**Taking a look at a Focus Stock List**

ABT shows a daily long setup (1) and PFE a short setup (-1); no signals on the hourly chart.
PFE Chart Setup taking from the Watch List Filter

The chart shows the current two-red-candle setup, which occurred right in front of earnings, giving the trade a higher risk to conclude. The prior two candle sequences worked out excellently and came to target-1: Setup-1 as a short and Setup-2 as a long trade.

To demonstrate that the concept works for all asset classes and chart types, we are adding more examples.

For more information on TradeColors.com, please see our website and download our brochure HERE.

TradeColors.com is a one-on-one mentorship program with all indicators installed for you.
Additional examples, showing you the concept works for all asset classes and chart setups:

**EUR/USD Daily Chart**

![EUR/USD Trade Setups Daily Chart]

**EUR/USD on a 1-Hour Chart**

![EUR/USD 1-Hour Chart]
EUR/USD 1600-Tick Chart: Showing multiple trades in a very short period of time

You surely see the power of such system in helping you by making sound trading decisions.

In addition, *TradeColors.com* allows you to upgrade to NLT Top-Line or NLT HF, getting your paid tuition fully accounted and discounted from the sales price of the upgrade.

Below, you will find a quick comparison of the two different systems:

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<td>$2,497 (onetime payment or PayPal program)</td>
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<td>Fully REFUNDABLE on Upgrades</td>
<td>Avg. $8,997 (onetime payment or PayPal)</td>
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Combined with the TradeColors.com comes a one-month free subscription to the NLT Continuation Pattern Alert = TradeColors.com Alert, where we spell out trade potentials for stocks, futures and FOREX pairs, helping you to find your preferred trade setups at ease. When the 30-day-trial-period is over, you can sign up to the NLT Continuation Pattern Alerts = TradeColors.com alerts, on a month-to-month basis for a fee of $99.

“Trading now is made for me, counting colors one-two-three”

“Take out the high or take out the low, this is the direction, I will go”

Do you feel, you can follow such rules?

Long: Buy at a Specified Price Level, when the HIGH of the second blue color candle is surpassed by the price development of the next candle.

Short: Sell at a Specified Price Level, when the LOW of the second red color candle is surpassed by the price development of the next candle.

Before we close, let us do a little excursion into the commodities market, picking Heating Oil Futures: Do you think heating oil is positioned on a 10 minute time frame?

The answer is: NO, however, if you trade form a weekly chart, you have a good chance to pick the trend. This is why we teach one-on-ne, focused on your wants and needs.
Hoping, you see the point, we want to make!

**THE SPECIAL OFFER**

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B) Scans with **NLT Top-Line**

C) Watch List Evaluation with **TradeColors.com**
ABOUT THE AUTHOR

Thomas Barmann is the founder and CEO of NeverLossTrading® and TradeColors.com.

His first introduction to trading came when he was 22 years old (more than 30 years ago). Over the years, he acquired a wealth of knowledge, how private investors can make money in the markets by focusing on constant income instead of growth.

He trades by taking advantage of spotting and trading institutional price moves, minimizing risk and compounding interest.

His aim is to make the world a better place by sharing knowledge and giving education. A very small group of people keeps the knowledge how to trade the financial markets and those who enter, without being well prepared, mostly donate their hard-earned money to those who know.

NeverLossTrading® and TradeColors.com are easy to follow, market proven trading and investing concepts he is sharing with you.

Thomas is the author of two books - My Stock Market Income and Your Trading Career as a Private Investor and many other publications.
INTRODUCTION

Success as a trader does not come down to predicting the future with 100% accuracy. Instead, it's a result of consistently identifying - and trading - high probability opportunities that risk a small amount of capital for the potential of a larger gain, usually a multiple of the capital risked.

The goal thus becomes identifying opportunities with a higher probability of returning the reward (profit) than the loss that would occur on a predetermined stop-loss. While there are dozens if not hundreds of low-risk, high reward opportunities, I wanted to focus your attention on one of my favorite set-ups that fulfils these criterion: low-risk, high-reward, greater chance of a successful outcome.

In general, strategies that take advantage of trends in motion - "pro-trend strategies" - test out better than anti-trend strategies that fight a trend.

While reversal or "fade" strategies may have their place in a trader's toolbox, new traders often do best by focusing on simple strategies that capitalize on a price trend in motion.

One of the best strategies a new and developing trader can employ is a simple retracement strategy. Retracements take advantage of a trend in motion by generating a buy signal as price "pulls back" or retraces to a support level during an ongoing trend.
Once a trend is in motion, odds tend to favor continuation of the trend as opposed to reversal. While it's tempting to expect a trend to reverse, data and trading experience do not back up reversal strategies as the best approach, especially for new traders.

While there is only one actual reversal spot in a trend, there are often plenty of opportunities to buy pullbacks or retracements during the development and continuation of a trend in motion.

PRESENTATION

*General Description:*

**Momentum precedes price,** and this pro-trend retracement set-up is based on that principle.

We must FIRST observe a clear New Momentum High as well as a New Price High (or Low, in terms of the Impulse Sell), and then note that as our INITIAL CONDITION. Once we observe these TWO variables occur simultaneously, we WAIT PATIENTLY for a pull-back (retracement) in price, usually to the 20-Period or 50-Period Exponential Moving Average.

Once price has made a new momentum high, pulled back to the rising 20 (or sometimes 50) period moving average, we then wait for the TRIGGER which will pull us into the market for a type of “Swing” trade or “Scalp” trade where we play for a RETEST ONLY of the previously established price high.
Figure 1: Amazon.com (AMZN) showing two new price highs confirmed with new momentum highs.

In the chart of Amazon.com (AMZN) above, we see two examples of the "New Price High with New Momentum High" condition. We're using the standard Rate of Change (RoC) indicator which is available on most charting platforms.

While it's easy to spot a new price high in an ongoing trend, we must look for a new indicator high in the momentum oscillator to confirm the new price high.

In real-time, compare the value of the indicator to the previous peaks during the uptrend in price. If price - in an uptrend - makes a new high, we look for confirmation from momentum as it also makes a new indicator high along with price.
It helps to draw a vertical line connecting the price high with the momentum high. Note the two highlighted examples in the uptrend of Amazon.com (AMZN) during 2013.

In addition to momentum (the RoC Indicator) making a new high along with price, you can look to Volume to confirm a new price high as well.

Note the spike or increase in volume at the same time Amazon.com (AMZN) shares pushed to new swing highs during an ongoing uptrend. These occurred at the same time the new momentum highs occurred.

![Figure 2: Amazon.com (AMZN) in an uptrend. New Price Highs are also confirmed with spikes or increases in Volume.](image)
**Logic:**

If momentum precedes price, then a new momentum high (identified in a momentum oscillator) should lead to a new price high more times than it leads to a new price low. This is the ‘greater than 65% win’ condition that allows us to quantify this set-up, and it allows us a framework to place and manage a trade.

We do not enter at the new momentum high, because odds then shift to favor a swift retracement against that new price high as profit takers sell positions and aggressive but unaware traders establish short-sell trades, diminishing demand and increasing supply.

We wait for a retracement because we expect price to swing back upwards and at least retest the most recently established price high.

We play for a small target, and play for a RETEST of the NEW HIGH ONLY, rather than trying to ‘get greedy’ and play for an entire ‘swing leg’ up in price (which often will unfold). Often, price will swing above the most recent price high, and it is perfectly fine to leave at least half of the position on to play for the new price high, but research shows that the greatest odds LONG TERM will come from playing for the retest of the high ONLY.

**The Tools You Will Need:**

For spotting and trading the "Impulse Buy" specific retracement set-up, you'll need to use a price chart of bars or candles (I prefer candle charts but simple bar charts are sufficient).

**20 Period Exponential Moving Average:**

A short-term moving average. Look for a steadily rising 20 period EMA as a bullish uptrend continues. EMAs can be used to confirm trends in motion and to enter a trade at a pullback to a rising average. In a strong trend, price will pull back (retrace) only to the rising 20 period EMA and then "bounce-back" or rally up off this average. We want to position our trade with low risk in the event that buyers do step in and rally this price up off this potential support level (think of it like a self-adjusting, rising trendline).
50 Period Exponential Moving Average:

An intermediate term moving average. Similarly, the 50-period EMA should be rising during an uptrend in price. A steeper pullback may find support at the rising 50 EMA, but we generally prefer taking trades into the rising 20 EMA. The 50 EMA is often a good indicator to use as a stop-loss level, placing a stop-loss under the 50 EMA and trailing the stop higher as the 50 EMA trends higher.

While the 50 EMA can be an entry trigger to buy, it's often best used as a level for which to trail a stop. Think of it as the "last line" of defense for buyers to enter and "bounce" the market up off support.

A Momentum Oscillator:

There are many ways to measure "Momentum" in the market. Keep in mind that "Momentum" is a concept and not necessarily an exact trigger as would be the case for a cross-over trigger (like an indicator crossing above or beneath a zero-line). We look to the momentum oscillator as confirmation only, not a trigger for entry. The standard Rate of Change (RoC) indicator is accessible to traders through most charting platforms or websites. The default period is 14.

Indicators such as the 3/10 MACD Oscillator, indicator named "Momentum," and other advanced indicators may be used as you develop experience with this concept and want to move beyond the basics.

**Entry**

Price MUST make a new high and momentum must make a new high for the Impulse Buy Trade.

For the Impulse Sell Trade, Price must make a new LOW and momentum must make a new LOW.

We wait for the retracement to the rising (or falling) 20 period exponential moving average, and then when price ‘hits’ this area, we establish a position either at the market, or with a limit stop order to take us into the market (long or short) when price reaches this level.
Alternatively, you could wait for price to test the rising 20 period moving average and wait for an “Up-Bar” or “Up-day” before establishing your position. You could also demand that the ‘up-bar’ take out the price by at least one penny of the last one or two candlesticks or bars, to give you greater confidence that the upswing is occurring.

There is a window of entry in this trade. If you enter BEFORE price tests the rising 20 period moving average, you would be entering aggressively, which is fine because sometimes price does not touch the moving average exactly, as many traders will by scurrying to buy (or short-sell) at this zone. You may actually make more money in the long-term doing this, because you would be getting in early, but sometimes the price may collapse through the moving average, leaving you with a loss that wouldn’t have occurred had you waited for confirmation.

If you enter AFTER price tests the rising 20 period moving averages, your win rate will likely be higher but you will make less money because you will be entering fewer trades and capturing a smaller piece of the eventual price action.

Here is a real-time example two touches of the rising 20 day EMA and thus two BUY trade entries in Amazon.com (AMZN):
Figure 3: Amazon.com (AMZN) demonstrates a New Price High, New Momentum High, and Spike in Volume in late October 2013. Traders had two opportunities to BUY as price retraced and touched the rising 20 day EMA in November. The simple price target was the prior high near $370.00 per share.

**Target:**

Again, it is tempting to play for a ‘whole new leg’ or ‘entire swing’ in price, but odds favor that price will at least retest the most recent price high or low. Odds drop off when playing for a target beyond the most recent price high. The longer a swing in price endures, the greater the odds are for a reversal. By exiting before we expect price to peak, we not only lock in a profit, but we are “Selling” when others are clamoring to “buy” because they just can’t stand sitting on the sidelines any longer. You will sometimes incur ‘negative slippage,’ meaning that if a move is strong and you place a sell-stop order out there, you might get filled at a level higher than you anticipated (which is exactly the opposite when you are selling when everyone is buying, or vice versa).

**Stop-Loss**

We will allow price to trail slightly below the rising or falling 20 period moving average, in order for the market makers to ‘play games’ and take out the weak stops that cluster predictably beneath key levels of support and resistance.

Generally, you want to place your stop at least one ATR (one Average True Range) value beneath the exact value of the 20 period moving average, provided that number is not a ‘round number’ such as $43.00 or $33.50. If so, go a ‘strange number’ below that zone, such as $42.91 or $33.44 to give yourself room to avoid a slight break under the exact level.

With stops in positive-expectancy trades, it is best to allow ‘wiggle room’ and not place stops too conservatively. With these trades, your profit target is defined by the price structure, so you want your stop to be ideally least one-third of your profit target. For example, if you are playing for a $6 target, place your stop around $2, given what the daily Average True Range is for the stock.

It is sometimes best to give yourself TWO average true ranges for a stop value, but no more. If you are playing for a $10 target, perhaps a $3.30 stop beneath the moving
average is best, but you can definitely decrease that to $2.00 or so.

This is where your own personality and experience comes in to grant you freedom in where you place stops – be it aggressively (larger stops further away) or conservatively (smaller stops closer to entry).

As mentioned earlier, traders may also chose simplicity and trail a stop under the rising 50 period EMA, assuming that if price does break under the rising 20 EMA, it will stop and reverse up away from the rising 50 EMA. If price breaks firmly under the rising 50 EMA, odds shift to favor a reversal and we would indeed need to limit losses in this "reversal" outcome.

The following are examples of textbook Impulse Buy Trades.

Figure 4: CME Group (CME) Daily Chart. Uptrend in motion. New Price AND New Momentum High in early November 2014. WAIT for the pullback (retracement) to the rising 20 day EMA. The trigger is into the rising 20 EMA (near $83.00) and first target is the prior price high near $86.00 per share. As the uptrend continued, price traded even higher than the target.
The initial condition (#1) occurs when price is uptrending and pushes to a new swing high. The condition for our "Impulse Buy" Trade develops when Momentum - and preferably volume - spike to a new indicator high on the chart which acts as a confirmation of the new price high. Notice that September 2014 saw a new price high but NOT a new momentum high (look closely at the August 2014 momentum high). Once we observe a new price high confirmed with momentum, we want to enter on the first pullback to the rising 20 EMA. This occurs in mid-November 2014 toward the $84.00 per share level. Our stop-loss is placed - and trailed - under the rising 50 day EMA (blue in the chart above). Notice how in this example price does trade slightly under the 20 EMA but NOT under the 50 EMA - that's where we want our stop. It's ok if price doesn't instantly bounce up off the 20 day EMA.

Finally, our Target (#3) is simply the prior swing high which occurred near $86.00 per share.

As mentioned, you can exit the full position here as price touches the target, or if you're more aggressive, you can take profits on half of your position and hold until price breaks under a reversal candle or on the first "down" day or sell-candle (bar) on the chart.
Yahoo! (YHOO) reveals two Impulse Buy retracement set-ups during an uptrend in 2013:

(Figure 5: Yahoo! YHOO Demonstrating Two Impulse Buy Trades in 2013)

The Impulse Buy Trade has a clear rhythm: Initial Condition, Retracement, Buy, Stop-Loss Placement, Target.

The initial condition is a new price high occurring in an ongoing uptrend in price. We then look to momentum to confirm a new price high with a new indicator (momentum) high and if so, we have our initial condition. We then wait for price to pull back (retrace) to the rising 20 day EMA and then buy as price touches the 20 EMA. Our stop-loss is then placed and trailed under the rising 50 period EMA and then we wait.
Either price will break lower, causing a failed trade and a stop-loss trigger outcome (small stop) or else buyers will enter at a low-risk pivot level, causing price to rally up at least as high as the prior swing high and then likely beyond that.

As traders, we simply want to be clear with our entries, management, and exit and capture the high-probability swing. The stop is smaller than the distance to the target which is the prior swing high. The key is patience and being objective with these parameters.

**CONCLUSION**

The "Impulse Buy" Trade is a special type of pro-trend retracement opportunity that relies on an initial condition to generate an entry, target, and stop-loss level for us to trade.

Depending on the distance of the retracement, the stop will often be two or three times the distance to the target (prior price high).

With that logic, we have a small risk at the same time we have a larger profit target.

Our rules help us stay on the right side of probability and thus limit our losses when price fails to reverse up off the moving averages.

Not every trade can be perfect, but the key is finding higher probability outcomes that allow for a small risk (distance from entry to your stop) at the same time it offers a larger profit potential (distance from entry to your pre-defined target).
THE MOVIE

The Impulse Buy Trade is just one of the many specific trade set-ups we teach and employ daily at Afraid to Trade, WATCH THIS VIDEO HERE for more details on how you can fill 5 gaps in your trading.

THE SPECIAL OFFER

Download four in-depth lessons on how to apply this simple, effective retracement strategy to your successful trading activities.

- Lesson 1: Specifically, How do Trends Develop and How Do We Identify Them?
- Lesson 2: What Indicators are Best for Trend Trading Tactics?
- Lesson 3: How to Take Advantage of Trends through the Perfect Pullback Strategy (Set-up, Entry, and Targets)
- Lesson 4: When to STOP Trading With the Trend When it is Showing Signs of Reversal (and What are Those Signs?)

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ABOUT THE AUTHOR

Corey Rosenbloom’s interest in the stock market began as a junior in High School where his team won an investment challenge competition which drew him into investing actual money in the market using basic fundamental analysis.
Later, the Bear Market of the early 2000s would challenge these assumptions and force him into deeper study of market concepts – “There had to be a better way than Buy and Hold strategies”.

He was soon introduced to the concepts of price charting, or more formally known as “Technical Analysis” and the pattern recognition, along with indicator combinations, drew his attention sharply in that direction. As the market began its recovery, he was participating as a momentum intraday trader, which soon gave way to broader swing-trading strategies.

He describes one of many “light-bulb” moments when he was introduced to Sector Rotation Concepts which seemed to make the price charts fit into a logical progression of expectations.

From there, he deployed options trading strategies which gave way to ETF trading, which itself finally gave way to active futures market trading tactics.

Mr. Rosenbloom holds a bachelor’s degree in both Psychology (cognitive research focus) and Political Science and later received a Master’s Degree in Public Affairs with a Business concentration. He has completed Levels I, II, and III of the Market Technician’s Association’s Chartered Market Technician (CMT) program and is awaiting the official charter in early 2009.

He currently serves as an independent consultant, analyst, author, and educator. He manages both personal and family accounts using the concepts discussed here, employing both long-term and active intraday trading strategies.