One More Zero

(HOW TO TRADE THE FOREX LIKE A PRO IN ONE HOUR)

INDEX

INTRODUCTION

Why the title "One More Zero?" Because, everybody can use one more zero in their lives. If you are making $25,000 a year, you'd be happier with $250,000. If you're at the $100,000 level, another zero would bring you to the one million dollar mark. And so on, and so on. You get the point. We are absolutely convinced that this e-book will bring you closer to adding one more zero to your life.

And why the subtitle, "HOW TO TRADE THE FOREX LIKE A PRO IN ONE HOUR?" Because, it will probably only take you about one hour to digest the essentials of this e-book – especially the parts on trading technique – and then you're well on your way to trading the forex like a pro.

Please don't take this e-book lightly as it is one of a kind. We have considerable experience with currencies, and have yet to find any decent material on the subject of trading the forex. This e-book could turn your life around if you will just let it.

Welcome to the wonderful world of forex trading as seen through the eyes of Peter R. Bain and Dr. Brent Strouse.

LEARN THE SECRETS CONFINED
TO A TINY CIRCLE OF INSIDERS
JOIN THE WORLD'S LARGEST
MONEY-MAKING BUSINESS
THE DAILY $6 TRILLION TREASURE HUNT

Stop what you're doing for a minute and consider this. We'll show you how you can get your share of the $6 trillion-a-day markets. You'll think you've died and gone to Heaven when you find out how easy it is to mimic the pros.

Every day, six trillion dollars float through the hands of people who aren't any smarter than you or I are. It doesn't make any difference if you're an accountant, baker, butcher, retired sea captain, homemaker, airline pilot, surgeon - or cop on the beat.

If you're willing to take some direction, you deserve a nice piece of the action. You'll never have to learn zip about currencies. You will learn the techniques and strategies to go out and claim what is rightfully yours.

Play right along with the giants of world commerce. You won't be on the outside looking in; you'll be enjoying the thrill of a lifetime, riding on their king-size coattails.

Trading the forex market deserves your serious consideration.

Forex trading has enjoyed exponential growth and widespread popularity over the past few years. It is only now that online foreign exchange trading is starting to get noticed.

Until recently, large international banks were the big dogs in the foreign exchange (FX or forex for short) market, selectively allowing access via telephone trading to *Fortune* 1000 companies, large funds, high-net worth individuals, etc..

But now, there are online trading firms that provide individual traders like you and I with direct access to the largest, most liquid financial market in the world – the forex.
A lot of traders seem oblivious to this market. This unfamiliarity is the root cause of misconceptions about this exciting market.

Spot foreign exchange is the ideal market for active trading - more leverage than equities/futures/options. The market is highly volatile, has a tendency to trend strongly, and actively trades 24 hours per day. There are no limitations on when one can short a currency. Currency traders can make money when a currency is becoming stronger or weaker.

JUST ANOTHER SERENDIPITOUS MOMENT

People think that life is a linear progression, which you go from A to B to C and so on. In fact, it's a total illusion, because anyone who thinks carefully about his/her own life knows that the pattern of his past is absolutely accidental and serendipitous. The key challenge in life is not to know where you are going, but prepare your character so when those wonderful moments of serendipity occur, you can listen to your heart and know what it is you need to do. Trading the forex is just another serendipitous moment in the course of your life. You will either embrace the opportunity or let it go. By the time you have finished reading this e-book, we believe you will not let this opportunity pass you by.

If you really wanted to learn how to trade the forex successfully, where would you go? Who would mentor you? Who would teach you? Who would show you how to take advantage of the market, instead of the other way around - the market taking advantage of you? If you could get there on your own, you'd already be there. We're here to help you conquer the magnificent world of forex trading.

The ideal market for trading …

Tired of giving money to your broker and feeling broker? Well, outperform him or her. Currencies don't crash. They outperform stocks. Earn immediate income and stop worrying about job security and layoffs forever.

WHY YOU SHOULD GIVE THE FOREX A SECOND LOOK

- Large returns
- Currencies trend well.
- There are no commissions.
- US$6 trillion a day and growing
- The forex is a very efficient market.
- High leverage: Each pip is worth US$10
- There is lots of movement in this market.
- You can trade 24X5 from home or anywhere.
- Little capital is required – as little as US$500.
- You can easily start out by taking 20 pips a day.
- You can trade whether you have a day job or not.
- You can hedge at FX Solutions. Not all market makers allow this.
- All you need is an Internet connection; charting/dealing software is free.
- This is real-time trading; 2.5 to four second response time; rare re-quotes.
- Low lot size: 100 to one ratio; US$100 controls US$10,000 (1,000 = 100,000)

RISKY YOU SAY?

Is forex risky business? Comparing trading the forex to other forms of trading, you will find that from a risk/reward standpoint, forex trading provides respectable returns.

THE STRAIGHT SKINNY ON THE "FX" OR FOREX MARKET

The currency (foreign exchange) market is the largest and oldest financial market in the world. It is also called the foreign exchange market, or "FOREX" or "FX" market for short. It is the biggest and most liquid market in the world, and it is traded mainly through the 24 hour-a-day inter-bank currency market - the primary market for currencies. The forex market is a cash (or "spot") inter-bank market. By comparison, ***the currency futures market is only one per cent as big***.

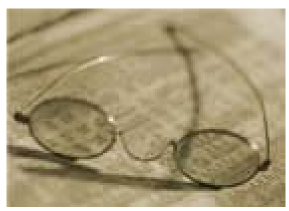
Foreign Exchange simply means the buying of one currency and selling another at the same time. In other words, the currency of one country is exchanged for those of another. The currencies of the world are on a floating exchange rate, and are always traded in pairs - Euro/Dollar, Dollar/Yen, etc. In excess of 85 percent of all daily transactions involve trading of the major currencies - Australian Dollar, British Pound, Canadian Dollar, Japanese Yen, Swiss Franc, and the U.S. Dollar.

Unlike the futures and stock markets, trading of currencies is not centralized on an exchange. Forex literally follows the sun around the world. Trading moves from major banking centres of the U.S. to Australia and New Zealand, to the Far East, to Europe and finally back to the U.S.

In the past, the forex inter-bank market was not available to small speculators due to the large minimum transaction sizes and often-stringent financial requirements. Banks, major currency dealers and the occasional huge speculator used to be the principal dealers. Only they were able to take advantage of the currency market's fantastic liquidity and strong trending nature of many of the world's primary currency exchange rates.

Today, foreign exchange market maker brokers such as FX Solutions are able to break down the larger sized inter-bank units, and offer small traders the opportunity to buy or sell any number of these smaller units (lots). These brokers give virtually any size trader, including individual speculators or smaller companies, the option to trade the same rates and price movements as the large players who once dominated the market. Market makers quote buying and selling rates for currencies, and they profit on the difference between their buying and selling rates.

THE SYSTEM



And now let’s have a look at Dr. Strouse’s use of the Pivots System in his own words:

Forex Intraday Pivots Trading System

This is a trading system that I use primarily on the Swiss Franc (USD/CHF) in the Spot Foreign Exchange market. I will outline the system as I apply it to the Swiss Franc, hereafter known just as USD/CHF (I believe this stands for Confederation Helvetica Franc).

WHAT YOU NEED

1. Five-minute and 1-hour charts for the forex currencies. The 1-hour chart helps define the intraday trend and the five-minute is used for entry and exit. I use MG Forex’s charting package because their charts represent broker prices and closely reflect the prices of all retail brokerages (i.e., MG Forex, FX Solutions, FXCM, GFT Forex, Gain Capital, etc.).

I used to use premium charting packages such as WebTrader, Comstock and so on, but I found that the charts reflected prices that no retail FX broker in the world was quoting. Therefore, when watching support and resistance points (pivots), I would see the price shoot way beyond the support or resistance, and it would look like the point had been broken, when in reality it was just a price quote that was out of line with the filtered quotes that brokerages use. When using charts that reflect brokerage prices, you have a better idea of where you are.

MG Forex's charting package costs US$44 a month. They also provide the DDE link for a forex feed to those who use professional charts like Tradestation. FX Solutions is revamping their trading software and charting package, and the news will come out early in October. The changes will set FX Solutions above and apart from much of the competition in the industry. The charts they have now are functional. Regarding their trading platform, FX Solutions has NO slippage at all on entry limit or entry stop orders. They do re-quote you if the price has changed while you are entering a market order, but this is standard market practice. Their competition is one of the worst at that.

www.mgforex.com is the site for MG Forex, but they have another site that features their news, charts and analysis packages: www.forexnews.com. This is where you can subscribe to the charts; they allow you a 30-day demo of the charts for free.

When MG Forex's price on the chart monitor changes, it is reflective of all the brokers. When the price changes on charts that have a so-called "premium" feed like Comstock or WebTrader, it is constantly moving and is not filtered like the brokerage prices are. It jumps all over the place, and sometimes it looks like support has broken, when it's just one of those renegade prices, out of line with the filtered quotes.

The FX Solutions charts are free and work fine. The new charts will probably be free to all FX Solutions clients. I will probably change to the FX Solutions charts; I can always still calculate the pivot numbers by using an hourly chart from 3 pm EST to 3 pm EST.

The FX Solutions charts have the capability to switch back and forth between a 5-minute and 1-hour chart. They also have the necessary indicators. They work quite well for that purpose. The only thing I don't like about those charts is that, on the 5-minute chart, I use candlesticks, and the candle updates every 2 1/2 minutes, rather than tick-by-tick. There is a refresh button if you want to update it before the 2 1/2 minutes, but I like the constantly updating candlesticks. The new charts will be real-time updating charts, and that will definitely change my feelings about them.

Regarding the bar or candlestick charts, they both update every 2 1/2 minutes rather than tick-by-tick. Some people prefer this, because it keeps them from making decisions until they actually have a close of a bar or candlestick. As far as I know, they are both the same, updating every couple minutes, unless you hit the refresh button.

Lately, I have been calculating the pivot numbers at 3 pm EST, and then again at 12 am EST just to note the difference. Most of the time the numbers are pretty close, and in the same area. I go with the 12 am EST if there has been any significant movement since 3 pm EST, or if for some reason the numbers don't seem to be matching up with the price action.

2. Indicators: The 9 and 18 Exponential Moving Averages on both the 5-minute and 1-hour charts. The MACD on both the 5-minute and 1-hour charts.

3. Pivots calculator or pivots calculation which provides not only the Pivot, R1, R2, S1, S2, but also the M1, M2, M3, M4 points as well. It is common to find many commodities futures traders calculate only the Pivot, R1, R2, S1, S2 points. Often, in the forex market, these minor points of support and resistance are very significant, and most of the time there seems to be no difference in their significance.

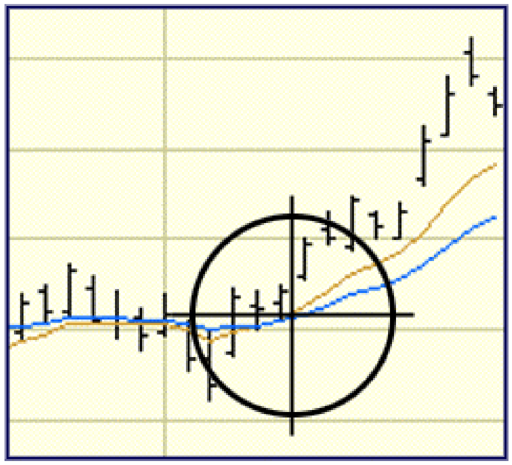
There is some difference in which 24-hour time frame to use to compute the daily open, high, low, close numbers. MG Forex begins their 24-hour day at 3 pm EST, and concludes the next day at 3 pm EST. FX Solutions' 24-hour day is 12 am EST until 12 am the next day. WebTrader daily charts are calculated upon 2400 GMT to 2400 GMT. Of all the times that I have reviewed to calculate the daily numbers, 3 pm EST to 3 pm EST seems to have the best consistency for the forex market. I believe the reason is because this coincides with the opening of the Australian, New Zealand markets, which technically represent the first markets of the day to open, followed by the Asian, then the European, and finally the U.S. market.

There is one exception to my usage of this time frame. At 3 pm EST, I will calculate the new Pivots based on the completed 24-hour period, and if the prices move up or down significantly during the Australian and Asian sessions so that they come close to exceeding the R2 or S2 numbers before the start of the European session, I will recalculate them at 2400 GMT (8 pm EST), or even later at 12am EST. This way I have a fresh set of pivot numbers for the European and U.S. market sessions, which I trade.

The latest numbers for daily volume in the Global Foreign Exchange market say that between 2 trillion and 7 trillion dollars a day change hands! This is up from the normally quoted numbers of 1.5 trillion and 2 trillion. Because of this, even time frames such as the late U.S. market hours and early Australian and Asian time frames are producing significant market movement. A year or so ago these time frames produced very little market movement, and were not usually the best times to trade, but that is changing. I trade from the Frankfurt opening (11 pm PST) or the London opening (12 am PST) to 9 am PST, the mid-point of the US market time frame. This normally produces profitable market movement.

At 11 pm PST, I see where the prices are located. Generally, they have not moved too much since 3 pm EST, and I await a fresh break of one of the pivot numbers. The times on the charts that I use for illustration purposes are Eastern Standard Time. Therefore, 2 am on the charts is the beginning of the time frame I use.

HOW THE SYSTEM WORKS



I. The Set-Up

After you have calculated the pivot numbers for the day, place horizontal lines on your 5-minute and 1-hour charts at the pivot numbers for the day, or at least as many lines as your chart gives you room for. It should look something like this:

The lines in the above illustration represent five of the nine calculated numbers. On this five-minute chart, that was all there was room for. The nine numbers are:

R2
M4
R1
M3
Pivot
M2
S2
M1
S1

There are several basic ways to trade pivot numbers. Some look for the prices to move to the higher end, and then sell in the upper third of the scale, or buy in the lower third of the scale of numbers (S1, M1, and S2).

However, in forex, ***the number of pips (points) that the currency will move in a 24-hour period is usually substantial***. This means that a move from the pivot or even the M2 number down to S2, M1, or S1 could represent 40 to 100 pips. If this is true, in USD/CHF, that is worth between ***$272 to $680 per lot traded***. Therefore, to ignore the move down from this area to the projected low of the day could represent losing out on a good opportunity.

Additionally, the currencies are the most trending markets in the world, and frequently they do not stop if they reach these lower levels. Therefore, to look to buy at these low points can be dangerous unless you have a clear reversal pattern in place, or some other criteria for a reversal being met.

Others look for a break of the pivot and trade it lower or higher to the S2 or R1 numbers, take a portion of the profit, and leave the rest anticipating a continued move to either S1 or R2. The system I use is an extension of this method of trading pivots. I will present the method in two parts. The first application is simply trading the pivots with NO INDICATORS. Then the second application is to utilize the MOVING AVERAGES and MACD. In this way, you will see that ***the most important aspect of the system is the relationship between price and the pivot numbers***. ***Secondarily, and of lesser importance, are the indicators***.

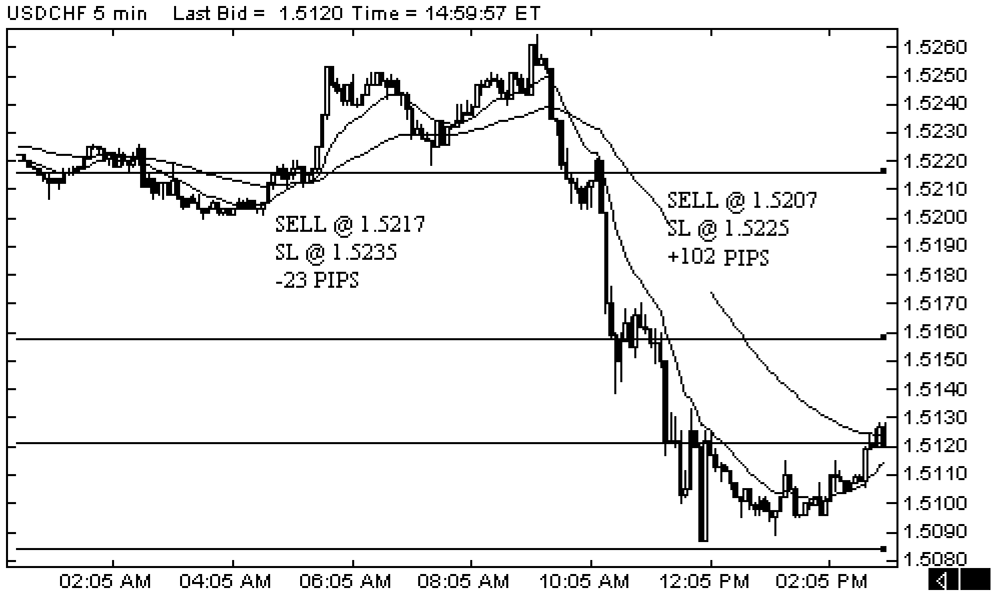
The reason for this is because ***indicators tend to lag behind the action***. If you follow only indicators, you will frequently find yourself in "***NO MAN'S LAND***." This is that area in the middle between two points of support and resistance. The price can either continue on to the next point or reverse and go back to where it came from. This is ***the worst possible place to enter a trade, and yet that is where indicator trading often puts you***. ***The best place to enter a trade is as close to support or resistance as possible.*** Obviously, ***if you are buying, you want to be sitting right on top of support and if selling, right below resistance***.

II. The Trade

When price penetrates a pivot number, it often retraces back to the pivot, and touches it briefly. If it was support that was penetrated, and it does not move back up above it, but continues to hover just below it, there is about to be a drop in price. At the point that it retraces after dropping below support, enter a sell with a modest stop loss somewhere on the other side of the broken support line. Notice the illustration below of the USD/JPY at 2 am EST. The price had just broken below the S2 number, which was 123.38. It briefly touched the 123.38 to 123.41 area and then began to descend. As you can see, it moved down all through the European and US market sessions.

This USD/JPY trade exhibits a problem sometimes encountered. Price either moves higher than the R2 or lower than the S2 number. At that point, it is best to re-calculate the numbers, or monitor the trade based on its relationship to weekly pivot numbers.

Other examples are seen below in the USD/CHF and GBP/USD.



This GBP set-up is an example of simply buying or selling depending on which side of 1.5000 the price is at 07:00 GMT (2:00 am EST). Since the price broke below 1.5000, you would wait until it retraced back to 1.5000, and then sell. Your target would be the next pivot line which was 1.4960. ***If all you did was trade one set of pivots each trading session, you would have a high percentage of wins to losses, and could realistically book 20 to 50 pips on each of the 4 major currencies***. (***Note***: Had you been using a MVA crossover method, you would have entered the market well into "***NO MAN'S LAND***." The same would be true of any indicator that lags behind the market action).

III. The Indicators

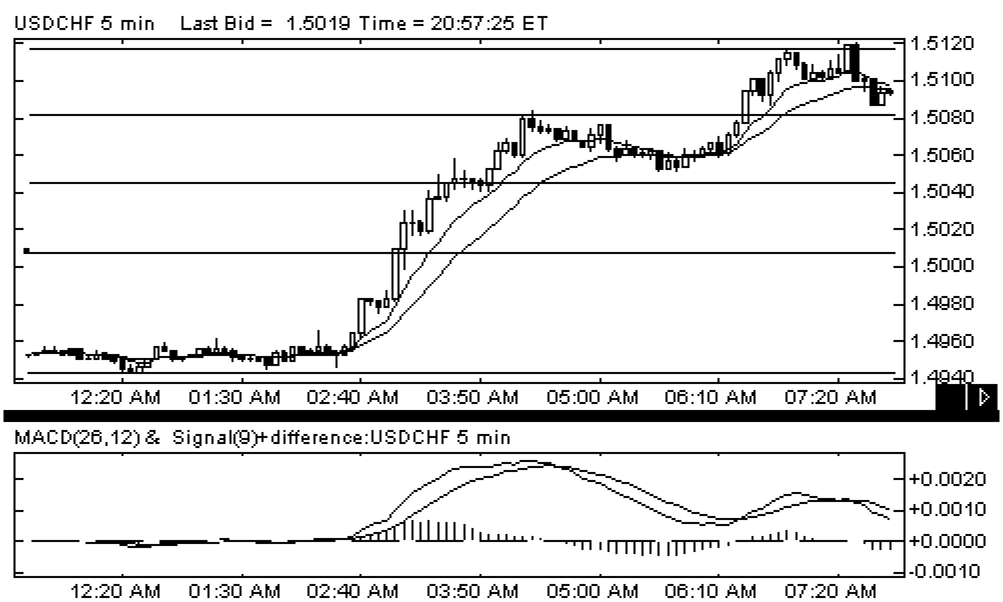
I use the 9 and 18 EMAs and the MACD on both the 5-minute chart and the 1-hour chart.

As far as the moving averages go, I am able to determine the intraday trend by the moving averages on the 1-hour chart. Regarding the MACD, I only use the signal line as it crosses through 0.000 either to +0.0001 or -0.0001. In fact, I do not regard the crossing of the Signal and the MACD line on the five-minute chart.

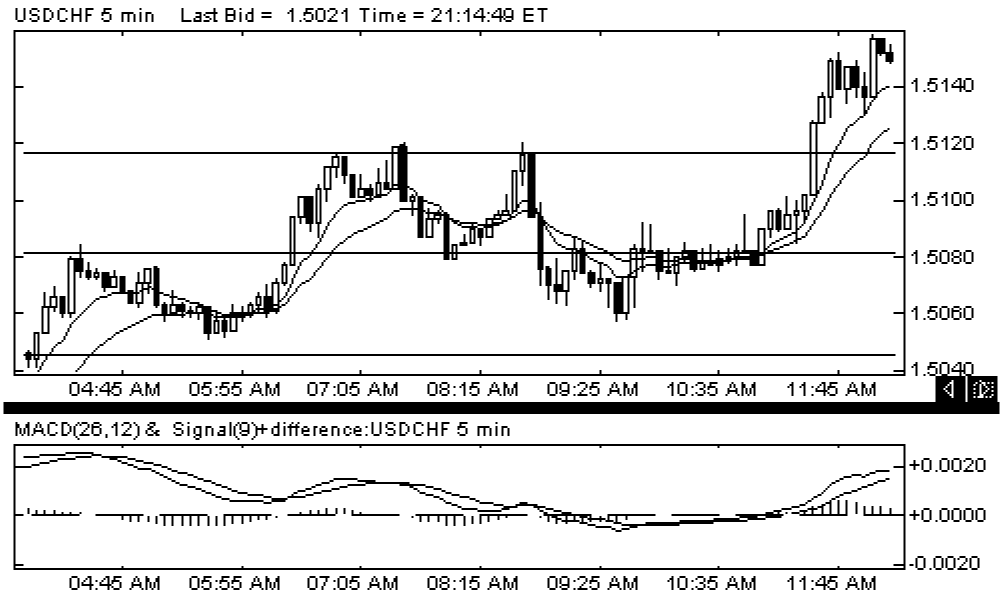
The only line that matters to me on the 5-minute chart is the Signal line as it crosses above or below 0.000. On the 1-hour chart, I will take note of the crossing of the MACD line and the Signal line. If they are below 0.000 and they cross to the upside, I will cautiously be looking for an entry signal on the 5-minute chart. If the Signal line on the 1-hour MACD crosses back up above the 0.000 mark, I will definitely be looking for an upward move on the 5-minute chart.

I will now walk you through a trade where I first of all look to price action in relationship to the pivots, then the secondary input of the indicators.

On the USD/CHF chart below, at 11 pm PST or 2 am EST, the prices were hovering just above the pivot line, which was at 1.4943. Because of this, I was inclined to buy as it had been drifting upward in the earlier Australian and Asian sessions, until it was hovering just above the pivot. Also, I see that the MACD signal line had just crossed up above 0.000, which is an additional confirmation that strength is building to the upside. Therefore, I buy at 1.4955, and look for an initial target of 1.5008, which is the next pivot number. If it breaks this, I move my stop loss up to just below the lagging indicator (18 EMA), and continue to follow it upwards as it breaks through resistance. At about 4:30 am, you can see that the MACD and Signal lines cross to the down side. I ignore this because the prices are still well above the new support at 1.5046, and it is the 5-minute chart.



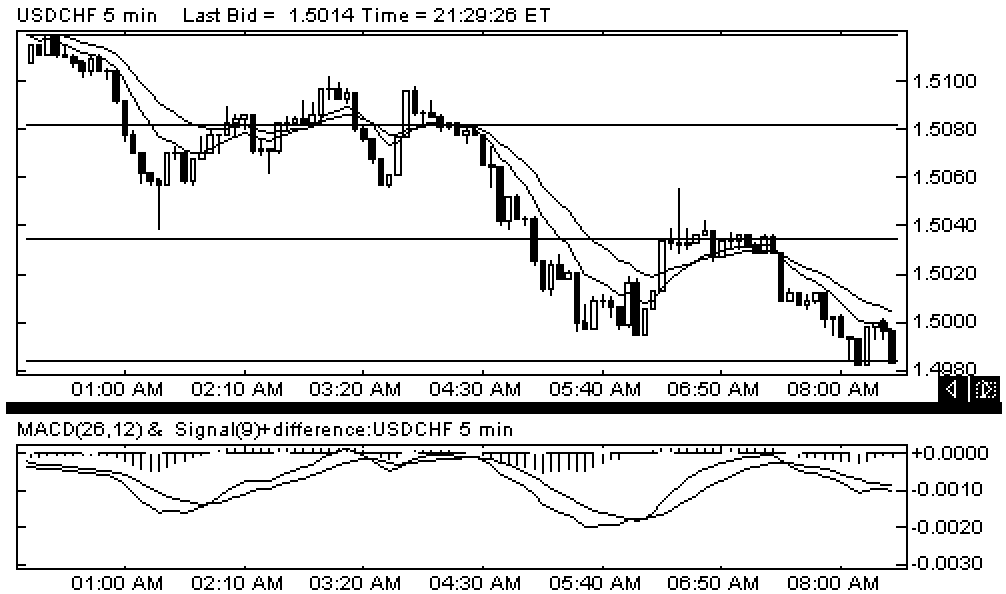
Price continues to move upward as you can see in the continuation of this chart.



At around 9:20 am, the MACD signal line crosses below 0.000. However, I check the 1-hour chart, and see that the MACD line and the Signal line are crossed upward or above 0.000. Until they cross to the downside, I continue to see this as an up-trend for the day. Remember, for the 1-hour chart, the crossing of the MACD line and the Signal line is significant to determine the trend. For the 5-minute chart, the crossing of the MACD and Signal is not meaningful. Price continues upward during the U.S. market hours, until finally hitting a high of 1.5159 for the day.

In the next example, at 2 am EST, price has moved down during the Asian session and has just recently penetrated the 1.5081 pivot number. Also, on the 1-hour chart, the MACD line and Signal line have crossed to the downside. Therefore, I am looking for a possible down move. Since the 5-minute MACD Signal line is already below 0.000, I am definitely looking to go short.

Around 2 am EST, price has retraced to the 1.5081 mark. I take note of the fact that it came close to touching the 1.5035 M2 number, but did not. ***Often, price will retrace and then come down again to touch the mark that was missed***. I enter a sell at 1.5081 with a 30-pip stop loss. For the first few hours it is back and forth, and then it begins to move downward, hitting the 1.5035 mark, then even lower. It retraces and to touch the 1.5035 number again, and then continues even lower.



This method is relatively simple and the consistent execution of it will result in several 50+ pip moves during the week. Losses should be kept to 20 to 30 pips, and stops should be placed based on your entry point relative to the pivot numbers. If entering a trade at a certain price would result in having to place a large stop loss in order to put it on the other side of a pivot number, do not take the trade. The risk/reward parameters are not right.

To review:

Look for a break of a pivot number, then a retracement to the number that was penetrated. Look to the 1-hour chart to see if the MACD and Signal lines are crossed in the same direction as the trade you are considering to enter. Also look to the 5-minute chart to see if the MACD Signal line has crossed over 0.000 in the direction of the trade. If so, enter as close to the pivot number that was penetrated as possible, and initially target the next number in your list of calculated pivots.

When a reversal does take place, you should look to the 1-hour chart, and note the MACD and Signal line. If they are crossed in the direction of the reversal, look to a break of the nearest pivot number, and seek to enter as close to that number as possible.

The conservative method would be to look for 25 to 35 pips, and then take profit. However, with a little patience and willingness to trade both the European and U.S. market hours, you can obtain several 50 to 100 pip moves in a week’s time.

HOT OFF THE PRESS

I just wanted to pass on a recent Pivots System observation and change in the way I am approaching the pivots. I have made an observation that has resulted in a significant improvement in my use of the Pivot System. It's pretty simple.

I have always used a 5-minute chart, but in the last three weeks (as of September 6, 2002), I have been using and observing the 1-hour chart. It seems that there is some significance to where the hourly chart closes. Lately, I have been only buying or selling when the hourly candlestick chart closes above or below one of the pivot numbers. This has greatly reduced the number of false signals that I experienced from time-to-time off the 5-minute chart.

Because of waiting for the hourly confirmation, I have missed out on a few signals because the price was too far away from the pivot and out in "***NO MAN'S LAND***." Overall however, it has been a beneficial change.

SHADES OF GRAY

I just thought I would interject a comment here that was prompted by a customer of mine who asked if Dr. Strouse's use of the 1-hour chart, as outlined above, precluded one from using the 5-minute chart to take signals from. The answer is no. Trading, as you know, is shades of gray. It is not a black and white business. If you get a signal off of the 5-minute chart, and it is confirmed by other indicators, there is no reason why you can't take the trade. As Joe DiNapoli reasons in another context, you can always take the trade and let the 1-hour chart confirm your decision. If it was wrong, get out of the trade. But, as Dr. Strouse suggests, you will get better signals by using the 1-hour chart.

THANKS!

Thank you Dr. Strouse for a very informative commentary on your trading style! And now, let's have a closer look at some other aspects of forex trading. Later on, we will discuss pivot points at length, including the concepts of resistance and support.

I should point out that, even if you read no further in this e-book, what you have seen so far is enough to get you going with your forex trading. So, don't feel that you have to read on. It's to your advantage, but I just wanted to point out that up this point you have the essence of what trading the forex is all about, thanks to Dr. Strouse.

Some of what you are about to read doesn't necessarily apply directly to forex trading, but the knowledge won't hurt you, and it will definitely complement your forex trading. I have added a mix of ideas related to both commodities futures and the forex. There is a direct connect between considerations in the commodities world and the forex.

HOW THE RETAIL SPOT FOREX WORKS

When you use retail spot forex software, it only requires an internet connection to trade real-time. No extra data-feed is required. All online forex brokers' software is real-time, rather than delayed.

If you download a free 30-day demo of the software, you can "practice trade" in real-time with the exact same quotes as a live account. The software is exactly the same, and you receive virtual money for the account. You are then able to enter trades in real time, and monitor them just as though it were a real account. You will experience no difference between the demo account and a live account. When you log onto your trading platform, you see your price quotes, and you simply click on the price to sell or buy. It will ask you how many lots or contracts you want, and then you click ok, and you are in. You can also use the charts they provide with the trading platform; they will reflect the movement of the real-time price of their trading platform. With those charts, you usually have the ability to place horizontal lines where you choose (pivot numbers).

Each currency is quoted with a pip spread. This is how the dealer makes his money. With most online retail brokers, there are no commissions. For example, I want to buy the Swiss Franc, and the current quote is 1.7205/1.7210. The dealer will give me the 1.7210 price, and I would start the trade -5 points which equals $30.00. In my trade window, I would see my money change as the market price moves back and forth. As it moves in my favour, my negative position is removed as soon as the market is trading 1.7210/1.7215, or higher.

In the spot forex market, it is common for currencies to move 100 to 300 pips/points in a 24-hour session. For example, using my pivots spreadsheet, at one point the projected range for tomorrow's Swiss Franc trading was 308 and the actual range was 154. I recommend the Swiss Franc, because of all the currencies it moves the most. If you like volatility, there is no currency more volatile than the Franc.

If you want to see the software in action, just register for it at www.fxsol.com, and download a free demo. You will get your password and username immediately by email.

If it’s action you’re looking for, like Mr. Magoo driving a sports car, then the forex is the place to be, and the FX solutions trading platform is the right place to trade.

THE TRUTH, THE WHOLE TRUTH, AND NOTHING BUT THE TRUTH

FX Solutions will price-shift sometimes. All brokerages make their money through having an advantage over the retail client. Banks have the true inter-bank feed; they give a quote to everyone else that is not as good as their inter-bank price. This is how they make their money. The brokerage then turns to the retail clients, and gives them a quote that is not as good as theirs.

There is a brand new brokerage that is claiming to give a direct quote from Deutschebank without any price-shifting. Dr. Strouse has already tried a demo with them, and it looks good, although most of the time the price is the same as FX Solutions.

Dr. Strouse has no real complaints with FX Solutions, and most of the time price-shifting does not affect him.

The one thing to consider is that ALL of the retail brokers get their initial start by offering "no re-quotes" or "price-shifting." This in turn results in a flurry of traders leaving their brokerages to transfer to theirs. As soon as they have a base of traders in place, they begin doing what all brokerages have to do in order to make money. They re-quote occasionally or price-shift to give themselves a better spread. This is how retail brokerages make money. If you were to ask FX Solutions or your market maker about this, they would tell you that there is no way this new brokerage can make money doing what they are doing.

Thanks Dr. Strouse for the above information on the real inner workings of the forex brokerage business.

It's in the news …

The forex is the one market that reacts to news. For all other markets, news is just noise. For example, it was reported recently (September 13, 2002) in the financial paper I read that "the U.S. is losing US$2 billion a day from the current account. Unless that is offset by inflows of an equal amount, ***the dollar will weaken***." Accordingly, the dollar slipped against the euro from near a two-week high, and the yen from a four-week high. "The deficit in the U.S. current account, the broadest measure of trade in goods and services, was bigger than the US$125 billion forecast by economists in a Bloomberg news survey."

In other news, "the Canadian loonie sank after the Bank of Canada unexpectedly left interest rates unchanged on September 4."

When you are trading the forex, it pays to pay attention to news as a heads-up of important events that may impact the currency you are trading.

A word on MACD …

This is my favourite indicator. If you want to fully understand its use, please refer to www.tradingsmarts.com/macdindicator.htm. That page will tell you all you really need to know about this truly powerful indicator.

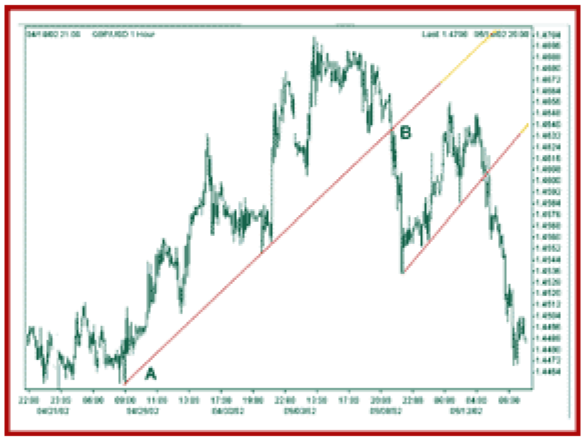
It is important in forex trading, as in other forms of trading, that you use MACD in different time frames to get a handle on where price action really is going. Don't just depend on any one time frame. It's best to view this indicator at different levels, starting at higher levels – i.e., longer-time duration – and then cranking the microscope down to lower levels.

To explain, a downtrend can persist in spite of higher MACD lows on a shorter time frame, indicating that, if the price range has been huge, it has progressively reduced the effectiveness of this indicator on the shorter time frame. The higher time frame can remain in a "sell" mode, and confirm a downtrend, even though the shorter time frame is faking you out with what appears to be a buy signal.

As with all forms of trading, keep your eye on the big picture, and look at things top-down. Macro-manage your trades. If you are working at a lower level, crank the microscope up a notch to see what is really going in the grander scheme of things.

Large Gaps between Pivots

Whenever you see those large gaps between pivots, Dr. Strouse says "don't expect the currency to do more than range between two points. In those cases, look for small gains based on either buying or selling the pivot number or looking for small retracements or trend lines," as can be seen in the following chart:



SIMPLE TREND LINE: The above hourly GDP chart shows an excellent opportunity to enter a short position on a trend line break of a previously strong upward trend. The line ascending from the cycle low pivot point at point A identified a zone of support all the way to point B. This trend line was actually formed by joining point A to the next cycle low pivot point half way between points A and B. I'm sure you can see this on the chart above.

Had we also connected the cycle high pivot points, this would have depicted an upward-sloping channel, bounded by the A-B trend line and the upper channel line. But, we merely wanted to show the power of drawing trend lines driven by the prevailing momentum of price action.

Once price broke through support at point B, the trend line quickly reversed roles and identified a zone of resistance, as potential sellers took advantage of subsequent rallies to sell the GDP. The same commentary applies to the lesser trend line to the right.

Using trend lines like this also provides unique opportunities to execute crystal clear exit strategies.

ELLIOTT WAVE

I am sure you Elliott Wavers out there can spot the five-wave bull phase in the above chart. Elliott wave theory posits that bull phases unfold in five waves.

Waves one, three and five are impulse waves in the direction of the main trend. These waves are fractal in nature, meaning that each of these larger waves can be subdivided into further five waves of lesser degree. Waves two and four are corrective and subdivide into three-wave patterns. Many of these impulse and corrective sub-waves can be further subdivided into levels of even lower degree.

For the rest of you who don't know what I am talking about, I know it all sounds confusing, but it's not important that you understand Elliott Wave theory to trade the forex successfully. I just thought it interesting to point out that these two techniques – trend lines and Elliot Wave theory – both complemented each other in the above chart. Reading trend lines is the easiest and simplest approach, so don't get hung up on the complexity of Elliot Wave theory here. You may wish to read up on it later on at some point. The more you know about technical analysis the better. He/she who has the most knowledge in this business wins.

MARKET HOURS

At 7:00 pm Sunday, New York time, trading begins as markets open in Tokyo, Japan. Next, Singapore and Hong Kong open at 9:00 pm EST, followed by the European markets in Frankfurt (2:00 am), and then London (3:00 am). By 4:00 am, the European markets are in full swing, and Asia has concluded their trading day. The U.S. markets open first in New York around 8:00 am Monday, as Europe winds down. Australia will take over around 5:00 pm, and by 7:00 pm Tokyo is ready to re-open.

All times are quoted in Eastern Standard Time (New York).

Ever since FX Solutions have been open, they have always opened at 7:00 pm on Sundays and closed at 4:30 pm on Fridays. The definition of a day at FX Solutions is the 24-hour period between midnight and midnight the next day.

Buy on Friday close / Sell on Monday close – The Weekend Effect

A "weekend" effect exists in currency prices. "Good" news is released during the week when it can be acted on, and "bad" news is released on weekends when it is more difficult to respond to. Also, less information per day arrives on weekends; therefore, the overall effect on forex rates is greater than during the week.

You should complement this tendency with other proven strategies that confirm a move is likely.

Two "free" forex sites worth looking at …

www.technical-investor.de is for the self-directed trader and technical aficionado.

www.chartware.de is for the trader who seeks instant review of conditions.

www.technical-investor.de offers a range of charting, such as one week, one month, three months, six months, and on up to one, two, five and 10 years. Once a time frame is selected, the site offers 12 charting style choices and access to more than 50 indicators. It also supports overlays of Fibonacci retracement, Fibonacci fans and Fibonacci time zones. You can even pull down a Renko chart of the euro, and select any time frame.

To navigate, load the site and click "Charts and Tools" on the left side of the home page layout. Then click "TradeSignal Basic" on the right side of the new page. This will call up a chart. You then enter a currency's symbol in the space provided, and you will have access to the trading tools.

www.chartware.de provides easy access to a total view of a currency without having to do any heavy analytical work. You can register for free, and list the currencies you want to monitor.

After you log in, you will see your list. Then you can click on the menu, and get a complete review of the technical conditions of the currency in terms of trend lines, candlestick patterns, and eight indicators. This site alerts you to divergence conditions in indicators, and offers the option to highlight the most important candlestick patterns.

The site acts as an intelligent agent providing a frame of reference that, after you see it, you'll be eager to revisit everyday.

FOREX DATA

ProphetFinance.com has introduced Foreign Exchange (FOREX) data within both the SnapCharts and JavaCharts services. This data shows the relationship of various international currencies to the U.S. dollar. These graphs are best displayed in line form, since there is one data point per day. FOREX charts are accessible by entering any of the symbols in this table.

Australian Dollar	$FXAU
Brazilian Real	$FXBR
Canadian Dollar	$FXCA
Chinese Yuan	$FXCN
Denmark Krone	$FXDK
EMU Members Euro	$FXEU
Hong Kong Dollar	$FXHK
Indian Rupee	$FXIN
Japanese Yen	$FXJP
Malaysian Ringgit	$FXMY
Mexican Peso	$FXMX
New Zealand Dollar	$FXNZ
Norwegian Krone	$FXNO
Singapore Dollar	$FXSG
South African Rand	$FXZA
South Korean Won	$FXKR
Sri Lankan Rupee	$FXLK
Swedish Krona	$FXSE
Swiss Franc	$FXCH
Taiwan Dollar	$FXTW
Thai Bhat	$FXTH
United Kingdom Pound	$FXGB
Venezuelan Bolivar	$FXVE

TD DIFF™

One way of determining buying pressure is to subtract a price bar's low from its close. Likewise, determining selling pressure is achieved by subtracting the bar's close from its high.

Tom DeMark goes one step further and takes into account two consecutive bars in the definition of his TD DIFF indicator.

If the closing prices of these two bars are both lower than their respective previous bar's close, he compares the difference between each bar's low and close. If the difference is greater for the current bar, he suggests that price will probably rally. Conversely, if the closing prices of the last two bars are both higher than their respective previous bar's closes, he then compares the difference between each bar's close and high. If the difference is greater for the most recent bar, he concludes that price will have a tendency to decline.

If you want the real technical description on TD Differential™ TD Diff™ from the man himself, here it is:

TD DIFF™ Buy:

Close(@) < Close(@)[-1] AND Close(@)[-1] < Close(@)[-2] AND Close(@) - Low(@) > Close(@)[-1] - Low(@)[-1] AND True High(@) - Close(@) < True High(@)[-1]- Close(@)[-1]

COMPLEX TD DIFF™ BUY: 1) 2 consecutive down closes (today and yesterday) 2) difference between low and close today is greater than the difference between low and close yesterday--buying pressure; 3) difference between true high today--high today or close yesterday whichever is greater (adjust for gap in other words)--and the close today is less than the difference between yesterday's true high--high yesterday or close 1 day before yesterday whichever is greater (adjust for gap in other words)--and the close yesterday--selling pressure

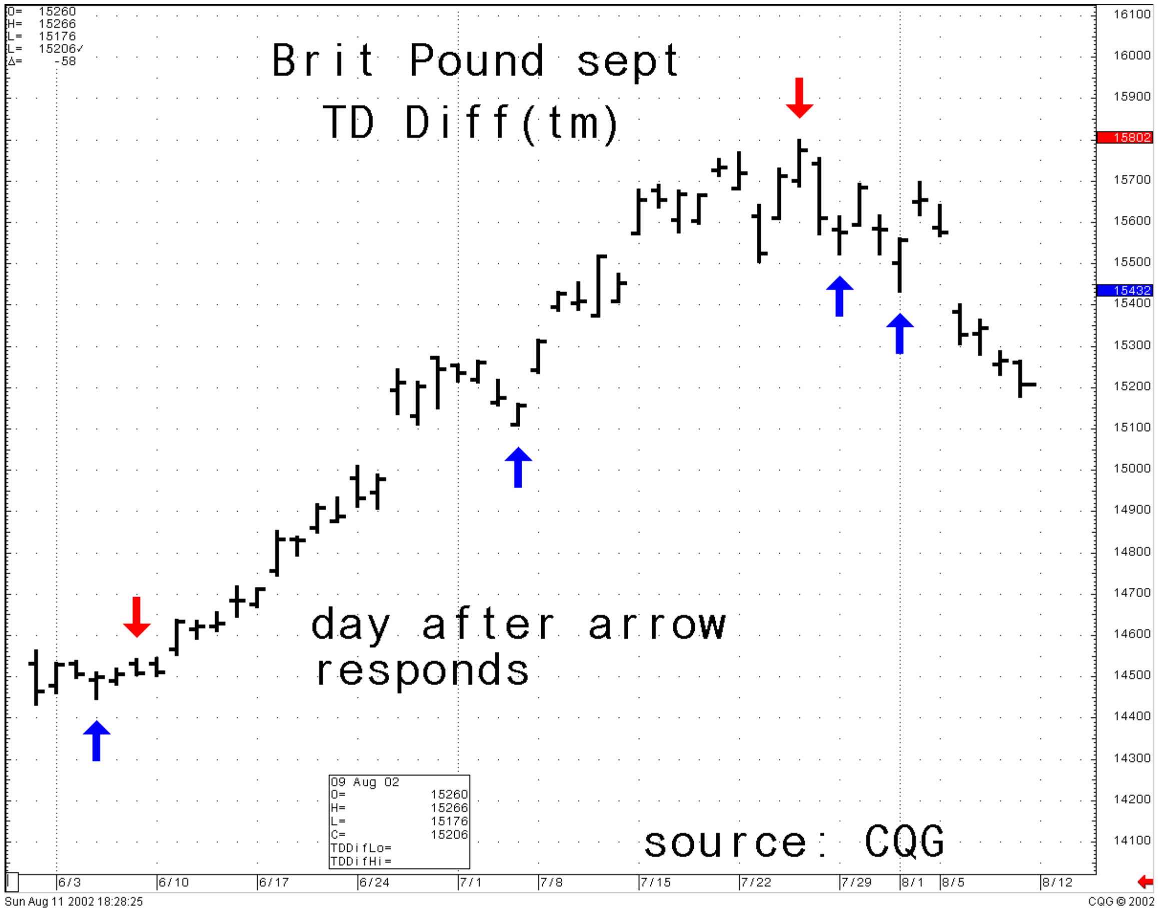
**For positive (bullish) differential at a possible low the buying pressure must be greater than prior day's buying pressure and the selling pressure must be less than the prior day's selling pressure. The expectation for a TD Diff™ Buy is a high the next price bar above the prior price bar's high before a low below the prior price bar's low.

TD DIFF™ SELL:

Close(@) > Close(@)[-1] AND Close(@)[-1] > Close(@)[-2] AND High(@) - Close(@) > High(@)[-1] - Close(@)[-1] AND Close(@) - True Low(@) < Close(@)[-1] - True Low(@)[-1]

COMPLEX DIFF SELL: 1) 2 consecutive up closes (today and yesterday) 2) difference between high and close today is greater than the difference between the high and close yesterday--selling pressure; 3) difference between the close today and the true low--today's low or yesterday's close whichever is less (adjust for gap in other words)—is less than the difference between yesterday's close and its true low—low yesterday or close 1 day before yesterday whichever is less(adjust for gap in other words)--buying pressure

**For negative (bearish) differential at a possible high the buying pressure must be less than prior day's buying pressure and the selling pressure must be greater than the prior day's selling pressure. The expectation for a TD Diff™ Sell is a low the next price bar below the prior price bar's low before a high above the prior price bar's high.



Thank you Mr. DeMark for sharing this information with us.

GAPS

Ever find a significant difference in price when the market opened the following session? This can be quite disconcerting if you had an open position at the close of the previous session. What we are talking about here are gaps. They are the result of something happening – news, or whatever – between the close of one session and the open of the next.

Now that 24-hour trading and extended-hours trading are here to stay, it is not unusual to come across significant changes in price at the open of one session from the previous session's close. All markets have their specified times for trading. Each market has its own opening and closing times, called market hours or pit session. Some markets are open for eight hours a day, while others are open for a shorter period. And then you have the forex market that literally follows the sun around the World.

Examples of different trading times include the foreign currencies that trade at the IMM in Chicago from 7:20 am Central Time to 2:00 pm, while the live cattle market opens at 9:05 am Central Time and closes at 1:00 pm.

What is happening around the world between the market's close and the next session's open can have a dramatic effect on how the markets open. A market can open at a different price from the previous session's close due to events or reports that come out while it is closed.

An example would be a company announcing its earnings after the bell – that is, after the stock market closes. If those earnings are lower than was expected, sellers will react to this perceived weakness in earnings, and drive prices down. This causes prices to open somewhat lower than the previous session's close.

Essentially, a gap is an area where no trading has taken place. An opening up gap is where the market opens higher than the previous session's high. An opening down gap occurs when the market opens lower than the previous session's low.

Gaps can catch you off guard. You could easily have a favourable position going into the close, only to wake up the next morning to find that the market has gapped against you. What is even more frustrating is when the market gaps straight through your stop price, giving you a larger loss than you expected.

X Y Z

(Chart courtesy ProphetCharts.com)

Every so often, gaps will occur, and they can open up or down. The figure above displays an example of the down gap (January 25th, 2002) for the Swiss Franc at the spot marked Z. The size of a gap can have some effect on price direction. Generally speaking, if a gap is relatively wide, some traders will tend to fade it – that is, trade against it. A gap over a certain amount or percentage indicates that the market has overreacted, or that illiquidity of the after hours market has taken over. If the gap is up, some traders will sell at the open in anticipation of the market either closing the gap, or at least settling down to some extent.

In the above example, you can see that the gap created at the spot marked X – December 24th, 2001 – was filled in December 31st, 2001 – at the spot marked Y. Gaps are usually filled in sooner or later.

If you understand this phenomenon, you can see how you can easily make money by anticipating such a move, either on the day that it occurs or subsequently thereafter – in a matter of days.

If commercial traders just happen to be long with their futures positions at the same time such a gap occurs, as on January 25th, 2002, then fill your boots sports fans. Prices have nowhere to go but UP!

Trading with gaps is not just something that works with currencies. It is a strategy that you can use with on any market, including commodities, markets, and stocks.

More on gaps later on.

Please don't forget those weekly numbers! …

Tracking previous highs and lows and analyzing price action can provide clear indications of trend direction.

As you have probably guessed by now, you should buy at support and sell at resistance. Support is usually described as a previous point at which the market stopped going down, and resistance as the most recent high point at which the market stopped going up. A more definitive approach states that resistance is the previous week's high and support is the previous week's low. If you use trading signals for entry and exit points based on a shorter time scale, such as signals off the daily or intraday indicators in conjunction with weekly highs and lows, then you would be using a multiple time frame approach.

And, if you are trading intraday strategies, then view the daily highs and lows as the key support and resistance points. Drawing conclusions about the state of the market and price action based on support and resistance levels is a classic charting technique. Here we'll look at weekly levels applied to a daily chart to illustrate the value of this concept.

IDENTIFYING THEM

By looking to the previous week's high or low as support or resistance, you can determine the coming week's key levels, which gives you an idea of where to look to enter and exit the markets. If these levels are violated by a daily close past the weekly high or low, it can be considered the beginning of a trend. But how do you identify these key levels?

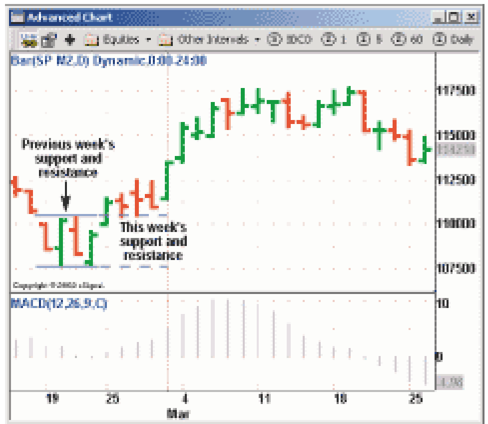


Figure: Weekly support and resistance levels. You can identify these by drawing trend lines across the previous week's high and low. The MACD histogram is helpful as confirmation.

According to Dr. Strouse, a floor trader in Chicago indicated to him that weekly pivots are VERY significant to watch as well as daily. More on pivots later.

CONSENSUS/SENTIMENT

There are "talking" bulls and bears and there are "real" bulls and bears. The real ones are reflected in volume and open interest. But, these numbers are not available for inter-bank currency trading. However, they are reported for futures markets, which represent a ***good proxy for sentiment*** because they are primarily a vehicle for speculation.

Turning points in currency markets often coincide with extremes in open interest levels, which represent extremes in speculation. The key here is to watch for ***extreme levels*** and extreme changes in both open interest and volume to signal a possible change in trend.

Open interest numbers are of little use intraday. However, knowledge of a change in trend or extreme speculation in a particular currency based on open interest and volume can be valuable information for any trader in any time frame.

Now, let's get into a discussion on commitments of traders, which is all about the behaviour of the futures markets, and how they are influenced by the various players. Knowing what the speculation is out into the future on any particular currency can only improve your odds in assessing the current direction of the cash market.

COMMITMENTS OF TRADERS

Any discussion on the macro influences that affect tradables would not be complete without an in-depth look at how the big dogs influence the markets, including currencies. Remember, currencies are commodities too, no different from orange juice, pork bellies, etc.

In commodities futures trading, the Commitments of Traders (COT) report is ***the only source of insight*** into the market positions of the key players.

The COT report provides a breakdown of each Tuesday's open interest for markets in which 20 or more traders hold positions equal to or above the reporting levels established by the CFTC.

The CFTC classifies traders into three groups: commercial traders, non-commercial traders (large speculators), and small traders (small speculators).

All of a trader's reported futures positions in a commodity are classified as commercial if the trader uses those contracts for hedging.

COMMERCIALS

Traders get classified as commercial by filing a statement with the CFTC that they are commercially "engaged in business activities hedged by the use of the futures or option markets."

Commercial hedgers are institutions and individuals who operate in the cash market of the underlying commodity. Examples include farmers, international businesses, miners, and processors. When prices are high, the commercials hedge their futures sales by selling futures to minimize risk. If prices fall, they will be protected by their futures positions.

Commercials are considered to be the most influential group in the commodities markets, because they have analysts and sources of intelligence that analyze a number of variables. Although you will never know what information they have at their disposal, by examining the COT data, you can see what positions they take. This is the key point in all of this.

These "Big Dogs" are worth paying attention to – especially at extreme positions, since their buying or selling strength can move the markets. They're like a herd of elephants stomping along a muddy river bank. You can't miss their footprints for sure.

The point I am trying to make here is that if you are trading the forex, you should keep an eye on the futures of the currency you are trading. When the commercial traders show their hands in those markets, you can bet your bottom dollar, pardon the expression, that the forex will be impacted at some point within the next three months.

NON-COMMERCIALS (OR LARGE SPECULATORS)

The non-commercials, or "large speculators," take on risk in return for the opportunity to profit. They are speculative traders, who are generally classified as fund managers. These are trend followers, and as such are not terribly accurate most of the time – but not all the time.

SMALL SPECULATORS

This category includes all speculators with positions below reportable limits, as specified by the CFTC, and small hedgers.

SPREADING

Non-commercial positions also include spreading. Commercial traders are not perceived as spread traders, since they are hedging against an actual commodity. The small traders may have a spread as a position, but their individual positions are not reported since spreading in this group is relatively small.

COT: THE BIG DEAL

When analyzing historical currency prices, we are limited to five variables – i.e., the opening price, high, low, closing price, and volume in a time series (hourly, daily, weekly, etc.) The same holds true for futures, with the ***exception*** that there is also the element of ***open interest***, which is the total of all futures and/or open contracts entered into - not yet offset by a delivery, exercise, or transaction. The aggregate of all long open interest is equal to the aggregate of all short open interest. Open interest held or controlled by a trader is referred to as that trader's position.

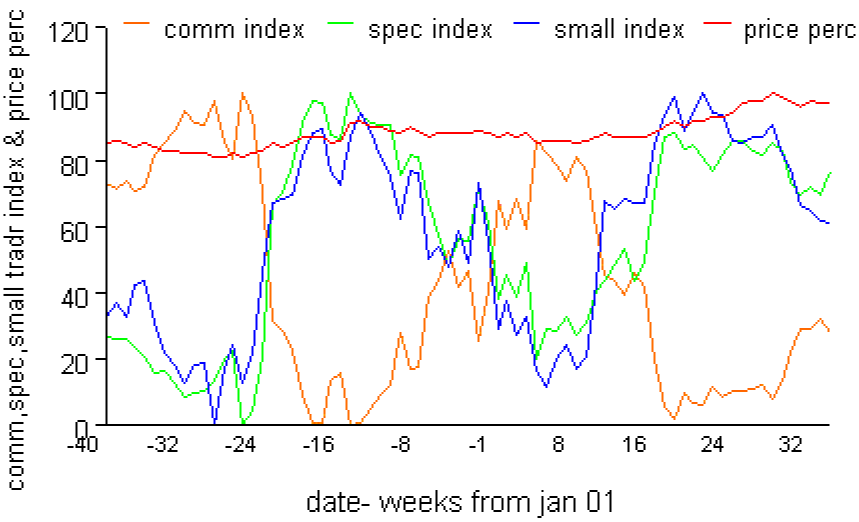
As traders apply the various indicators available to them, like Bollinger Bands, RSI, Stochastic, etc., they are simply manipulating the same underlying data in an effort to make trading decisions. While the number of these manipulations is unlimited, the dataset itself is finite, never really being able to reveal any new, or more meaningful information. (***Hence, the importance of pivots***.) For futures trading, on the other hand, the COT reports provide additional and independent datasets for analysis.

The COT information is ***independent*** of price data, as COT data is not derived from it. As such, the COT metrics take on a whole new level of importance.

The COT reports contain a myriad of raw numbers, far too many for the average person to comprehend. It is just a maze of data, which in and of itself is terribly difficult to read and understand.

To simplify the process of understanding what all the numbers really mean, Barrie Lees has developed a very useful site, which portrays the COT database in a user-friendly manner.

Here is an example of the Swiss Franc:



X Y Z

In the above COT chart for the Swiss Franc, you can see commercial (comm. index), non-commercial (spec index), and non-reportable positions (small index) nicely portrayed in graphical form. All the math is done for you. In other words, each respective line above is net of long and short positions for ease of reference. If all positions were summed together, you would have a straight line, since they would neutralize each other in total.

Spreads are not included in the COT graph since they are neutral (one spread = one long and one short contract). The total long positions will equal the total short positions for all three groups.

In the above chart, I have marked three spots X, Y, and Z. X denotes a period when the commercial traders were extremely long with their futures positions. Y was when they were extremely short, and then again at the spot marked Z. Where they are extremely long in these futures markets, you can reasonably expect futures prices to climb at some point in the next three months. Where they are short, price weakness is on the horizon. Futures prices invariably affect the spot market.

How you read the above chart in terms of time frame is by determining the number of weeks from January 1st, 2002, either plus or minus. For example, -24 is 24 weeks before

January 1st, 2002, which would put it at approximately June, 2001. You can see a bullish bias to the price of the Swiss Franc ("price perc") from that point on. Where you see the commercials extremely short with their positions, you can also see prices turning bearish beyond those points – Y and Z. Pretty powerful stuff. The commercial traders own the futures markets. They are those markets. Eighty per cent of the money in those markets is theirs. They trade thousands of contracts at a time. They have more money than you and I ever will put together. Ignore them at your peril.

If you would like to experience the simplicity of Barrie's site, head on over to his visitors site: www.orc.ca/~blees/visitors/trader.htm. You will see in front of you ~ 80 commodities. Select the one that you want, and it will take you to another page. There, click on the third green bar down from the top (on the left side of the page), and – walaa – you will see a graph that looks like the one above.

The data at the free "visitors" site is one month old, but it is a good gauge of what has been going on with your commodity – be it pork bellies or the Swiss Franc. If you would like to see more current data – i.e., the last month thrown into the mix – you can subscribe to Barrie's "subscribers" version of this site for a measly US$4.95 per month. There are other sites that charge an arm and a leg for similar information, but not in near as nice presentation format.

What I am showing you here is "gold." If you understand what I am telling you, you are well on your way to achieving a "reversal" in your trading fortunes. Remember, there is a direct connect between futures and the forex.

RULES

There are no hard and fast rules when it comes to interpreting the effect any one group has on the futures markets. However, it is generally accepted that the commercials, or the "Big Dogs," deserve the most respect. They are assumed to be the most successful, albeit there are times when the large speculators will indicate the strength of their commitment as greater than the other two groups. The small traders are often seen as the "dumb money," the group to stay away from – the example of what *not* to do in futures trading, or any trading for that matter.

THE BIG CLUE

In the above graph, you will notice that the comm. index and the spec index are at odds with each other at the spots marked X, Y, and Z. What this is telling you is that, with such extreme divergence of opinion or "sentiment," the underlying tradable (the Swiss Franc in this case) is about to experience a reversal in price direction. That is because the commercials are either heavily long or short, and at a 100 or 0 reading, versus the 0 or 100 reading for the opposing side. This is the extremity you should always be looking for before looking for price reversal.

The only exception to this "rule" is where you see "backwardation," or "premium." This means that the front month is priced higher than the back month, and what this means is that the commercials really want the underlying product. I saw this happen recently with sugar, where the readings were 80 and 20 in the above graph, but there was a premium on the front month. Sure enough, sugar headed north. You can check for premium at www.futuresource.com.

Once you know what the "Big Dogs" are up to, and you want to enter a commodities trade on a trend change, please consult two of our info-reports called "Commodities Futures – How to Buy and Sell," and "Low Hanging Fruit." They will help you determine when the trend has in fact changed, and when it is "safe" to place your trade. If you do not have these reports, please send me a note: prbain@tradingsmarts.com.

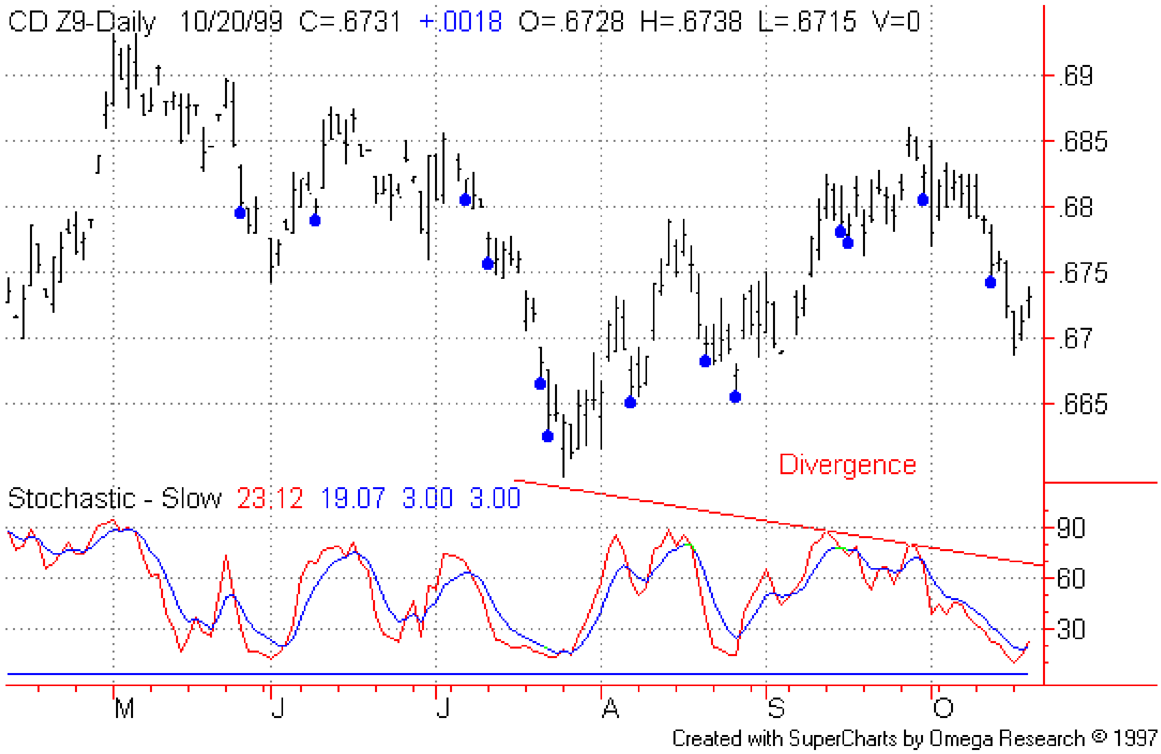
Word of warning … never short a commodity where the "Big Dogs" are extremely short, but where there is a premium on the front month. The "Big Dogs" are "having their cake and eating it too." They need the underlying physical product, while at the same time locking in high prices by selling futures contracts into the future. Don't get eaten alive in the process. When the premium starts to fade and disappears, and the "Big Dogs" are still heavily short, then you can safely short the commodity.

The above two paragraphs are for the benefit of futures traders. I included them because of their importance to the topic of using COT data properly.

DIVERGENCE

The following section, although written with a commodities focus, applies equally to all markets, including the forex.

Next to what the commercials do to the markets, a phenomenon known as divergence is one of the most powerful indications that price is about to change direction. Divergence occurs when price action and an indicator like Stochastic develop different attitudes. In the process, significant buy/sell signals are thrown off. These are worth watching for. As you can see from the example below courtesy SuperCharts®, there is a disparity between price behaviour and the Stochastic Indicator. Prices continue to advance while the indicator is declining. You can see the ensuing result. Prices headed south. The same applies when the market is in a bearish trend and Stochastic displays a bullish divergence.

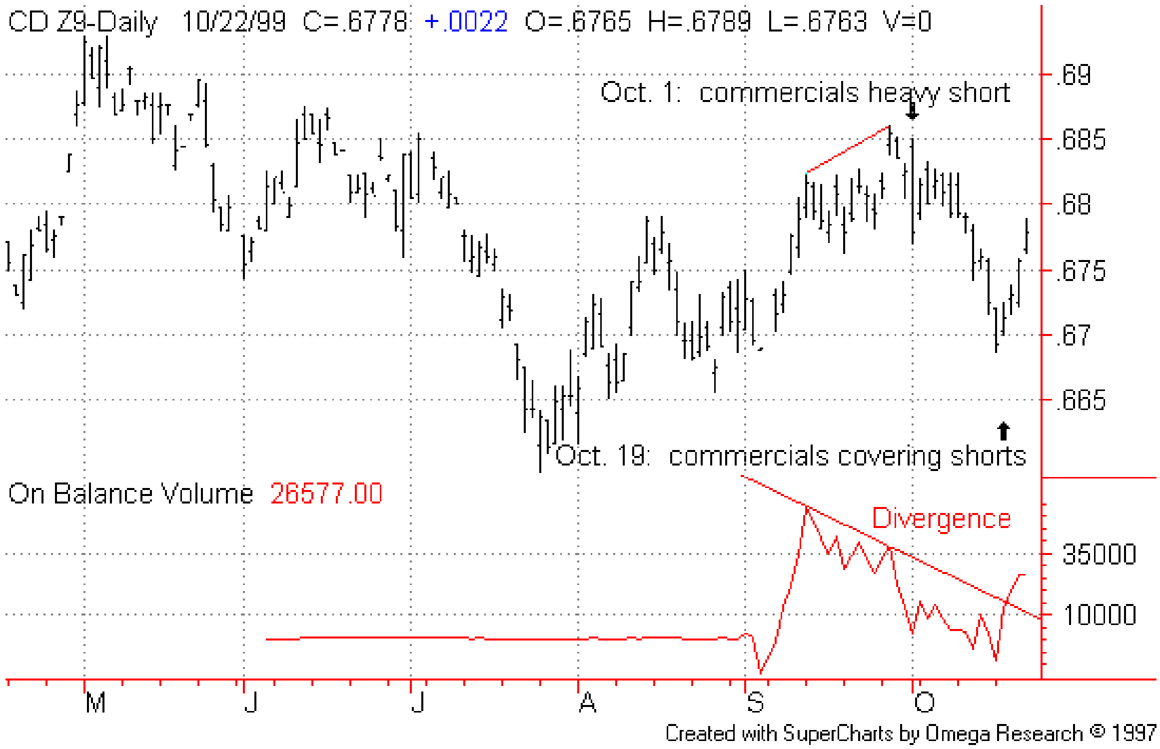


Incidentally, for those of you who use SuperCharts®, I use the inputs of 8, 3 and 3 rather than the defaults that come with the system. I find that these give me a clearer picture of divergence, and an earlier warning of the differing behaviour between indicator and price.

Divergence is a great tool for position traders, as well as day traders. But, for position traders, it enables trend changes to be isolated. As you can see in the chart above, the dollar peaked towards the end of September, which would have been a good time to take a position trade on the short side, and ride it down.

Another way to look at divergence is to pay attention to "on balance volume" if you have SuperCharts®, or equivalent. This indicator distinguishes between the volume of money flowing into a tradable (buying activity), and volume of money flowing out (selling). It is pretty difficult for a tradable or stock to rise if more money is flowing out than in, even if volume is strong.

Take the following example for instance:



I have drawn a line through the two prominent peaks of the OBV indicator which you can see above. The almost 45-degree line pointing down to the right is significant. The line that I drew through the corresponding price highs in the above chart is again also almost at a 45-degree angle, but it points up to the right as you can see.

What this is saying is that prices were going up during this period, but there was more selling than buying going on. You can see that prices soon began their slide. This was a great selling opportunity that didn't require a lot of work. That's the beauty of using SuperCharts®, or something like it.

You can also see that I noted in the same chart that the commercials were heavily short - a lot shorter than they were in July towards the end of that month. At that time, they were heavily into buying. Again, this information I obtained from SuperCharts®.

Just as a point of interest, I draw your attention to the furthermost bar to the right of the chart window. It is for October 22nd. OBV is showing that there is more buying pressure than selling, but overall volume for that day was actually the lowest of the past four trading sessions. This is normally a bearish indication, even though a higher proportion of the volume is going to the bullish side. If a commodity is truly trending upwards, volume should increase as fund managers and speculators buy more even at higher prices.

Now, let's have a look at pivot points and the concepts of resistance and support …

But first a word from Dr. Strouse: "In the past, I have paid for just about every forex trading system that is out there, and the pivots system is the best I have seen. Those other systems range from $300 to $1200."

Just to whet your appetite, I thought I'd share with you a trade on the Canadian dollar that was documented in my book. It will show you the power of using pivot points to forecast where price action is going in the next trading session. Very powerful stuff. Get your mind around this, and you're well on your way to mastering the forex.

ROCK 'N ROLL WITH THE CANADIAN DOLLAR

(THE POWER OF PIVOT POINTS IN ACTION)

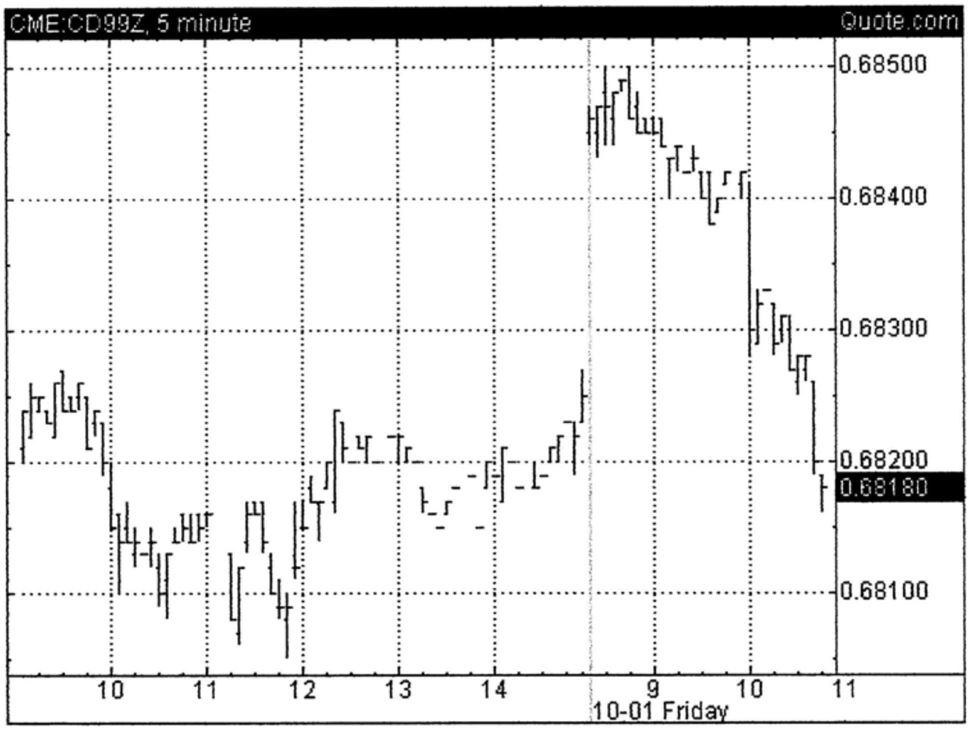
I couldn't help rushing over to my word processor this morning as I watched the Canadian dollar do what it has done over and over again - make money for the astute day trader. I am talking about Friday, October 1st, 1999, and I have included printouts from the Astrikos site showing the action. What you are about to see will work for any tradable.

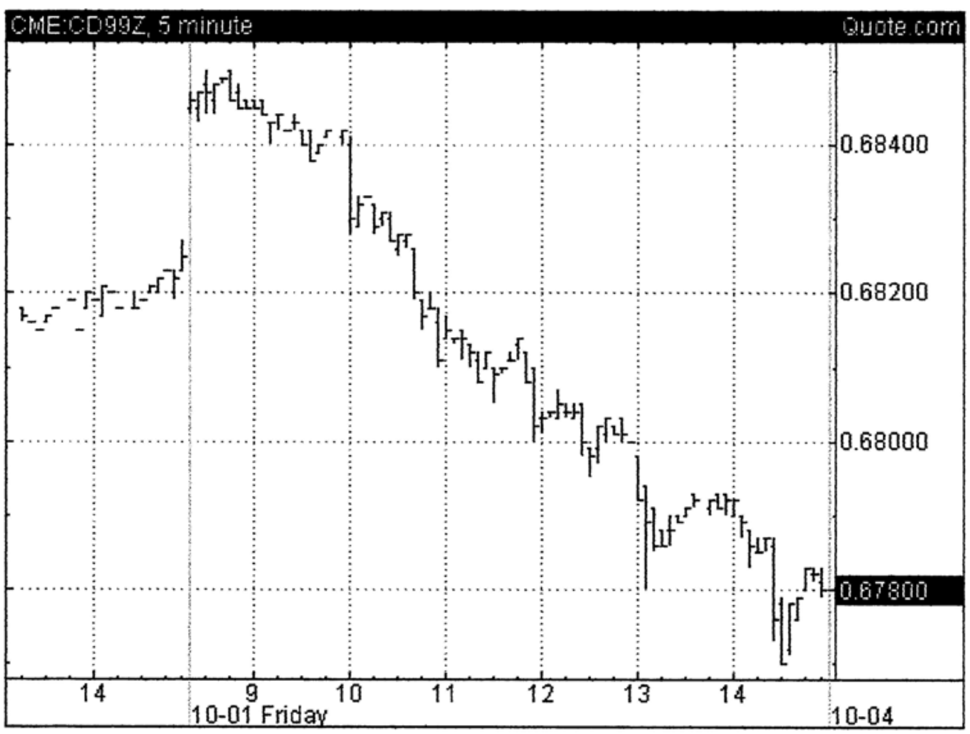
Here are the facts. Based on my calculations last night, I knew three things. I knew that the estimated high for today would be .6841 and the low .6815, and that the average range for the Canadian dollar is approximately 33 ticks (pips), or $330. per contract. I also knew that, because yesterday was an up close, the pivot points (resistance and support zones) for the following day would be M2/M4, signifying that the high would probably exceed the previous close and come in at around the 6841 mark at some point during the day's trading range. You will find details on pivot points and forecasting tomorrow's high and low later on in this e-book. This information applies equally well to all tradables.

As you can see from the first chart below, the Canadian dollar opened at .6845 right off the mark. Had you been watching the action at 7:20 a.m. Chicago time, which is the opening bell, you would have been perfectly justified immediately selling contract(s) At-the-Market knowing that the high for the day had probably already been achieved. Sure enough, the high of .6850 was achieved shortly thereafter, and it was downhill from there, as can be seen in the second chart.

Also, knowing that markets typically open and close at opposite ends of the spectrum, an MOC order (Market-on-Close) would have given you a tidy profit of US$650. per contract (open of .6845 minus the close of .6780).

This may seem like an extreme example, but the interesting thing is it's not. I specialize in the Canadian dollar and have done so for quite some time now, only to see the above pattern repeat itself over and over, time and again on either side – long or short. Don't take my word for it. Check it out for yourself. Watch it every day and draw your own conclusions.


CME:CD99Z, 5 minute
Quote.com
0.68500
0.68400
0.68300
0.68200
0.68180
0.68100
10
11
12
13
14
9
10
11
10-01 Friday


CME:CD99Z, 5 minute
Quote.com
0.68400
0.68200
0.68000
0.67800
14
9
10
11
12
13
14
10-01 Friday
10-04

<u>A WORD ON PRICE … THE NUMBER ONE INDICATOR</u> …

Price doesn't lie. It is simply the fact – a number that tallies up the transactions at the forex, where everyone who knows anything is forced to show their hands in the form of trades for the record. There is no place to run and hide. We may never know why people are buying or selling, but if they are doing it, their actions are surely reflected in price. We can never be certain about world affairs, and we *don't have to be,* since everyone who is in the know is already acting in the market, and price is a real-time measurement of worth.

<u>The Straight Skinny on Trading Price</u> …

My view is that technical analysis *is not* a tool to be used to "forecast" the future. I use it to gather information, and diagnose *what the market is doing in the here and now*. This allows me to prepare a road map and contingency plans so that I am ready for just about anything. I believe that it is important to look at the behaviour of price itself, rather than rely solely on indicators to provide buy/sell signals, as traders tend to make decisions triggered by price change. Essentially, all we need to know is if there is movement or sideways action. In the case of trending, we want to know how strong. If we are into a sideways pattern, we want to identify areas of potential trend change or breakout. The goal is to buy every dip in an uptrend, and sell every rally in a downtrend. In a consolidation phase, we want to wait patiently for some sort of movement. Remember the adage, "The trend is your friend!" The Law of Inertia states that an object at rest or in motion tends to stay that way, unless acted upon by some external force. The same could be said for commodities futures, currencies, markets, and stocks.

<u>It's in the charts</u> …

I use charts to help me assess what's likely to happen next – to examine past price movements to forecast future price movements. This approach to trading is called technical analysis. Technical analysts are trend followers who interpret price movement via charts to determine tradable up or down trends.

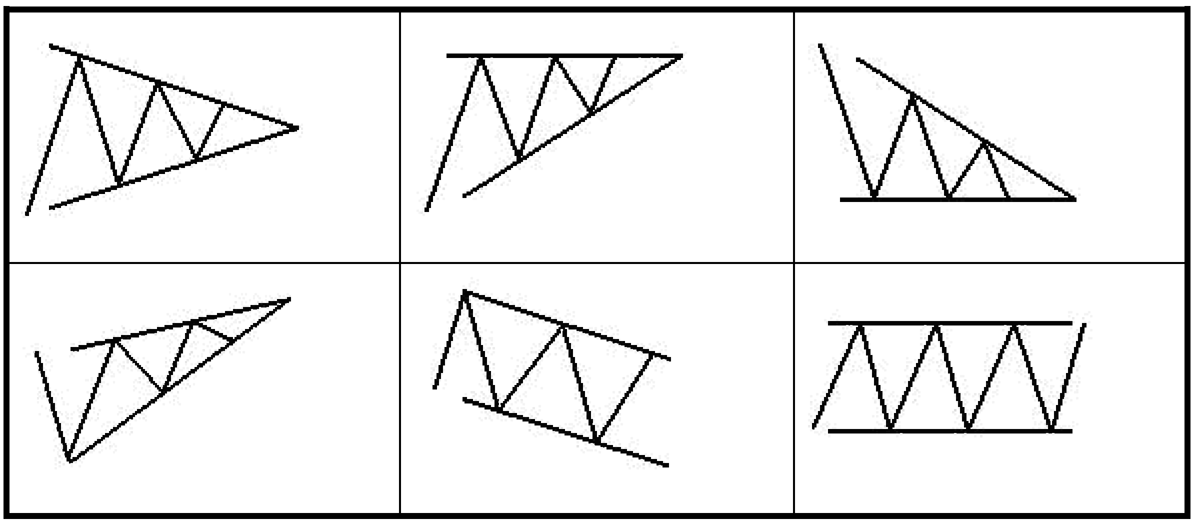
To the extent that technical analysis works, it is because human psychology plays a big role in traders' decisions to buy or sell, and that hasn't changed much over the years. Convinced devotees don't really want to know anything about the world's fortunes or outlook, except for news as it relates to currencies. They believe that everything that is known about world fundamentals is already reflected in the price.

Momentum traders believe that price will move in the path of least resistance, and that that path is defined by the trend in the price.

Of course, if you have access to volume with your charting service, that is an equally important measure to pay attention to.

In the case of the forex, this is the one place where news pays. Knowing what's going on in the news on any given currency can certainly give you the edge with your trading. That is not the case with other markets, where news is generally considered just plain old noise.

A GOOD STARTING POINT



These are some of the patterns you will see when you are trading. It is not so much important that you recognize each pattern, but more importantly how you will trade the underlying tradable.

When to buy and when to sell could very well be the question of all questions when it comes to trading the forex. The answer though could very well be found in the proper use of pivot points. It is our considered opinion, based on my own practical experience, that pivot points represent the most reliable method for trading this market.

I am not trying to impress you with the above chart patterns, nor do I expect you to memorize them. I am merely illustrating the fact that forex prices move up, down or go sideways. A forex tradable does not trade in a straight line. People are people and, if they weren't, the forex would be a sleepy little alley that begins at a church and ends at a river, with little in between.

Nor am I going to tell you that you should trust indicators at all times. My favourite indicator, MACD, sometimes will show divergence and issue a signal, only to have price go sideways on me. It turns out that price itself is the number one indicator, ahead of all the others. It is a reflection of what all participants think price should be. It is the net effect of what all the smart money and dumb money around the world think the fair value of a currency is at any given moment in time.

Bottom line, you have to be able to read price action in order to truly understand where price is going. And, just how do you do that? By looking at price through a filter. If you look at price by itself without any reference points to compare it to, you will have no way of knowing what it is doing - where it has been, where it is, where it is going, in what direction, and how fast. You can certainly use indicators like MACD to confirm where price is going, and help you make your entry or exit decision.

But, ultimately you have to be able to anticipate the next move of price before the dumb money does, because they're the ones who usually catch the wave at the tail end of a move. We will look at one filter, and perhaps the only filter that works on the forex, in the coming paragraphs. Strap in and listen up closely. You are about to go for an interesting ride.

An important concept to get down at this point is the concept of breathing. Every tradable in the forex "breaths" so many pips on average every trading session. It's important to know this number entering a session because that is the maximum number of pips you can hope to carve out per lot with your skilful trading. How you get this number is explained a little bit later on in the section on pivot points.

In the case of the Canadian dollar, it puts 33 pips on the table on average for you to take each and every trading session. If you were able to capture all 33 pips, you would take home US$330 per lot. If you were trading 10 lots at a time, your take-home pay would be US$3,300 each and every day. That translates into US$16,500 every week, and US$66,000 every month. Or, get this, your annual salary would be US$792,000 just trading the little ole loonie. That would put you up there with the highest paid CEOs. Can you handle that? It gets even better with the Swiss Franc, which is much more volatile than the Canadian dollar.

Now, we know that you will never capture all 33 pips every time you trade the Canadian dollar. However, you get the point. It's your challenge to grab as many as you possibly can. And, that's where the Pivots Program will definitely help you.

Let's take a look at how that is possible. Master this and you will be well on your way to quitting your day JOB.

Let's suppose I told you that the Canadian dollar would have a low of 6815 and a high of 6841 for the session you are about to trade. Let's suppose the Canadian dollar opened at 6815? What would you do? Buy of course. Let's suppose the Canadian dollar opened at 6841. What would you do? Go short of course.

Let's suppose I told you that the Canadian dollar could have two possible lows of 6544 and 6567 and two possible highs of 6589 and 6612 for the session you are about to trade. Let's suppose the Canadian dollar opened at 6544. What would you do? Buy of course. Let's suppose the Canadian dollar opened at 6567. What would you do? Buy of course. Let's suppose the Canadian dollar opened at 6589. What would you do? Short of course. Let's suppose the Canadian dollar opened at 6612. What would you do? Short of course.

Now, why would I give you two possible lows and highs? That's because we want to work in relation to where the Canadian dollar closes in the last session relative to the open. If it closes higher than the open, we want to use the higher of the two possible lows and the higher of the two possible highs. If it closes lower than the open, we want to use the lower of the two possible lows and the lower of the two possible highs.

The possible lows and highs we will call M1, M2, M3 and M4. So, to repeat, where the close is less than the open, we would use M1 and M3 for the next possible low and high. And, where the close is greater than the open, we would use M2 and M4 for the next possible low and high.

Okay, so far I've told you there are two possible buy points and two possible sell points. Let's label them:

M4

M3

▪
▪
▪

M2

M1

Now, we cannot expect that price will always be at these extreme levels when we want them to be. So, the question is, what do we do when price is far removed from these levels? To address that issue, I have added five more levels:

R2

M4

R1

M3

Pivot Point

M2

S2

M1

S1

We now have four possible buy points (S1, M1, S2, and M2) and four possible sell points (M3, R1, M4, R2). Generally speaking, the zone below the pivot point is a buy area, and the zone above the pivot point is a sell area. Don't buy above the pivot point, and don't sell below the pivot point. These are simple rules to follow, but are not cast in stone.

However, we need to recognize that resistance can be support, or R can become S, and support can become resistance, or S can become R. Don't get hung up on the terms "support and resistance." They are just fancy names for buy and sell points. You will learn more about this later on in this e-book. Correspondingly, M1 and M2 can reverse roles and become sell points, and M3 and M4 can become buy points. This is determined by price action. **In addition to buying below the pivot point and selling above it as a general principle, you can also take your cue from where price closes on the hourly chart, as Dr. Strouse suggests. You can buy or sell when the hourly chart closes above or below any of the pivot numbers. This will greatly reduce the number of false signals that you get from time-to-time off the 5-minute chart.**

<u>To summarize</u>, all you need to know about how to use the nine pivot points is that you either buy below the central "pivot point", or sell above it, or take your cue from where price closes in relation to any of the pivot points on the hourly chart. That's all there is to it. Just keep it simple and follow these underlying guidelines and you'll do just fine. One further point, because currencies trend well, it is possible for price to overshoot the entire pivot point range either to the upside or downside. Therefore, be careful not to sell too quickly or buy too soon when price overshoots.

The challenge is to identify the overshoot and know when to outsmart the dumb money who are chasing the overshoot.

You are probably wondering where the nine pivot points come from. They are all automatically generated by my Pivots Program. You should have a copy by now if you previously bought one of my products from me. But, if not, just drop me a note: prbain@tradingsmarts.com, and I'll e-mail a copy to you.

One further thought, if price action and the nine pivot points are way out of whack with each other, you may wish to recalculate them, as suggested earlier by Dr. Strouse.

The definition of a trading session varies from market maker to market maker, but, at FX Solutions, a full 24-hour session is defined as the period between midnight and midnight the next day. The pivot points that you originally calculated when you first started trading the current session should be good for the entire session. But, sometimes, due to world events, things happen and price takes off in a new direction. That's when recalibrating the pivot points will give you a better feel for the newly optimized support and resistance levels.

And, finally, whenever you commence a trading session on the forex, just remember that it is your challenge to capture as many of the pips that the currency you are trading traditionally throws up for grabs. As discussed earlier in this section, the Canadian dollar "breaths" 33 pips on average. This number is automatically calculated for you by the Pivots Program. You must know this number going into a trading session because, during the trading session, you're going to want to know where you are in relation to the achievement of those pips. In other words, have we put in the projected high or low for the session yet? It's from either of those two points that the 33 pips will be put in. For those astute traders out there who know what I am talking about, we are in fact talking about "average range." This is the range the Canadian dollar will trade every session, on average, session after session. And, it is based on the range between the high and the low for each session. Of course, each currency is different, and some are even more volatile and, hence, potentially more profitable to trade. The Swiss Franc comes to mind.

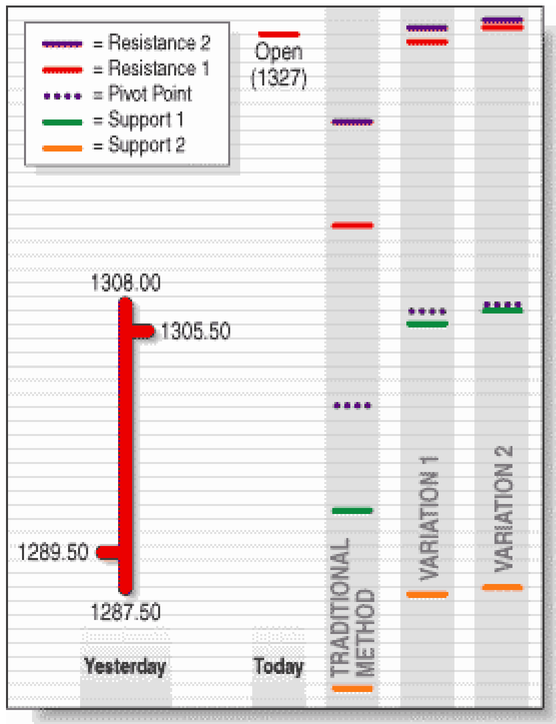
The good news is the pivot points can be used on any market, not just the forex!

TRENDING

Currency markets trend better than most markets. You can ride the trend with the knowledge that, at some point, the market will become overextended and that, if you have a method to identify the overshoot, maybe you can begin to look in the otherdirection to position yourself ahead of the other players. Enter the Pivots Program. It is the tool that will help you identify overshoot.

PIVOT POINTS ARE POINTS TO REMEMBER

Floor traders use pivot points to determine critical price and support/resistance levels. It is a relatively simple calculation that can be jotted on the back of a trading card for ease of reference. Off-floor traders who have the luxury of looking at monitors with real-time data feeds can adopt this technique as well.



PIVOT POINT CALCULATIONS: Different methods are used to calculate the pivot point. Here, you see the results of the traditional method and two variations of it. We use the traditional method, with the addition of mid-points between the resistance and support levels, and will talk about this method here. If you don't have the Pivots Program calculator, all you have to do is send me an e-mail, and I will forward it to you: prbain@tradingsmarts.com.

CALCULATION

The pivot point and resistance/support levels are areas at which the direction of price movement can change. They are calculated using data from the previous trading session. By looking at the open, high, low, and close numbers from the last trading session, you can calculate the next session's pivot point as well as support and resistance levels.

Here's what everybody is so excited about …

Watching price action without anything to go by will leave you directionless. You should watch prices in relation to points-of-reference (a pivot point in combination with support and resistance levels). It is perhaps the only way I know of actually telling you if the market is moving closer to, or further away, from a particular point. It also helps you develop a feel for the market, once you put your position on. Your entry price will take on new meaning as you track it in relation to these points-of-reference.

When watching price action, you will want to know three things: in what direction, how far, and how fast. To do this measurement, you need only observe current price in relation to what we call the pivot point.

The pivot number and associated resistance and support numbers are calculated by using the last trading session's open, high, low, and close to calculate the numbers for the current session. The calculations are shown below, and they work equally well for all tradables. They are used as points-of-reference to help you gauge price action. You don't have to perform these calculations. They are automatically done for you by the Pivots Program.

Pivot Point & Support & Resistance Points	**Calculation**
Second resistance (R2)	(R2) = P - (S1 + R1)
Intermediate resistance level (M4)	M4 = R1 + R2/2
First resistance (R1)	(R1) = (2*P) – L
Intermediate resistance level (M3)	M3 = P + R1/2
Pivot point (P)	(P) = (H + L + C)/3
Intermediate support level (M2)	M2 = S1 + P/2
First support (S1)	(S1) = (2*P) – H
Intermediate support level (M1)	M1 = S1 + S2/2
Second support (S2)	(S2) = P – (R1 + S1)

(Pivot points: Craig Ross, Senior Commodity Trader, Infinity Brokerage Services, Chicago)

The two most important numbers are those that predict the current session's low and high. If the last session's close was down in relation to the open, M1 and M3 are the numbers you would use to forecast the current session's low and high. If the last trading session's close was up in relation to the open, then M2 and M4 would be the numbers you would use.

It's interesting that Tom DeMark's calculations for determining the projected low and high for the next trading session produce the same results as above. Here are his calculations below. You will notice that he covers what to do when the close for the last trading session was the same as the open.

Condition	Calculation	Tomorrow's Projections
today's close < today's open	today's high + today's low + today's close + today's low = X	high = X/2 - today's low (M1) low = X/2 - today's high (M3)
today's close > today's open	today's high + today's low + today's close + today's high = X	high = X/2 - today's low (M2) low = X/2 - today's high (M4)
today's close = today's open	today's high + today's low + today's close + today's close = X	high = X/2 - today's low low = X/2 - today's high

As a general rule, never buy above the pivot point, and never sell below the pivot point. But, you can buy when price moves up through an R or S number, or sell or go short when price moves down through an R or S number. It should be further noted that the pivot and resistance/support points are merely probability points against which you can gauge the direction and speed of price action. They can offer important clues as to where prices are going, but are not cast in stone.

The highs and lows, denoted as areas of significant support (S) and resistance (R), suggest moves and continuation in the same direction as the direction of penetration when penetrated.

You've heard the expression "The Trend is Your Friend." However, history shows that most tradables, except currencies, tend to move in a non-trending or "sideways" fashion, more of the time than in a trending mode. One way of trading non-trending markets is "swing trading." Swing trading techniques can be used in any timeframe – daily, weekly, monthly, and intraday charts. However, the most popular timeframe for swing trading is the daily bar chart.

The Pivots Program distinguishes clear resistance and support levels. When price approaches the support or resistance area boundary, you take action: buy if prices are moving lower and close to the support boundary, and sell if prices are moving higher, and toward the resistance boundary.

The strength of support and resistance at the boundaries is usually determined by the number of times the tradable has pivoted at the support and resistance boundaries. The more times a tradable has reached a support or resistance boundary, and then reversed course, the more powerful is that boundary. Pivoting simply means reaching a support or resistance boundary, and then reversing. Hence, the word "pivot." Swing traders know what this means.

You should still use tight protective stops. A good area to place a protective stop is just outside a support or resistance boundary. For example, if a tradable is nearing the upper resistance boundary, you would establish a short position, and place your protective buy stop just above the resistance level.

If the tradable keeps moving higher and breaks out above the resistance boundary, (stopping you out of the market), then that would be considered an upside "breakout." Such a move would suggest buying, if there was good follow-through buying strength.

You would place your protective sell stop just below the former resistance boundary that was just penetrated to the upside.

Where price action violates all support/pivot/resistance numbers, and develops a bad case of the uglies, your backup plan would be to use the stochastic oscillator and/or recalculate the pivot points. Of course, there's nothing wrong with using this indicator in conjunction with trading the resistance/pivot/support numbers. For a description of its use, please read on.

In addition to understanding how the Pivots Program works, I would encourage you to learn how to read bars, a free offering that comes when you send me an e-mail: prbain@tradingsmarts.com.

Once you develop a thorough understanding of the Pivots Program, know how to read bars, and develop an appreciation for what gaps are all about, you will be well on your way to moving up into the ranks of the top 10% elite traders. We call them the "Big Dogs."

Other things that will help you in your journey to achieving "Top 10" status are knowing how the commercial traders operate, and understanding the role indicators play with your trades. Don't become a nervous Nellie over all of this. You are getting all the essentials in this e-book. Just remember that the pivot points will be your saving grace.

HOW TO USE THE PIVOTS PROGRAM

This is an Excel spreadsheet. It calculates the low and high, pivot point, and resistance and support points for the current trading session, based on the open, high, low, and close of the preceding session. All you have to do is input the open, high, low, and close (no decimal points) and click on any open space in the spreadsheet. And, there you have it … walaa … all pivot/resistance/support points for the next trading session will appear before your very eyes. It is important to track the average range, as this information is not available anywhere else. Going into a trading session, it is important to know this average.

For forex traders, you get the open, high, low, and close from the nearest daily session at your trading platform. At www.fxsol.com, the one we use, the daily session is defined as 12 am to 12 am New York time.

To track the range, start the range total off at zero. Then, add the current session's actual range to the range total, and do so every day. At the same time, increment the # of days by one, again starting at zero. By clicking on empty space in the spreadsheet, the average daily range will be calculated for you. Nowhere else is this average available. It is important to know how much a tradable "breaths" on average so that you can get your mind around the possible range for the current session. The Canadian dollar "breaths" 33 ticks on average per day, at US$10 per tick.

The actual range refers to the actual range of the trading session just past, and is calculated based on the open, high, low, and close values you input at the top of the spreadsheet.

Where it says CD H2 26/02/02 at the top of the spreadsheet, you can change that to reflect what you are trading, and use the current date. The effective date at the bottom of the spreadsheet should also reflect the current date.

Where it says,

Tomorrow's projected high =
Tomorrow's actual high =
Tomorrow's projected low =
Tomorrow's actual low =

This information you hand record here based on the automatically calculated high and low projections for the next trading session and the actual numbers for that session.

APPROPRIATE QUOTE FOR YOU STAR WARS FANS OUT THERE

LUKE SKYWALKER: "I don't believe it."
YODA: "That's why you fail."

Translation: You must believe you can do it; if you think otherwise, you will fail.

A PRIMER ON PIVOT/RESISTANCE/SUPPORT POINTS

"One man's ceiling is another man's floor."
(Bob Dylan)

A support level is established when a tradable stops declining. A resistance level is likewise set when a rally stops rising.

A look at market movement tells us that price fluctuates between a level of support and a level of resistance. Properly identifying key support and resistance levels can improve your ability to enter, exit, and manage your trades. So, how can we determine which support and resistance levels are the most important? One way is to follow the traditional method of plotting the pivot point, and its associated resistance and support levels. There is a standard way of making these calculations, which we have already discussed.

As you might expect, there are other approaches to identifying support and resistance levels for a tradable, but a great number of them are unreliable. These approaches include, but are not limited to, methodologies that utilize Fibonacci numbers and ratios, Gann concepts, moving averages, and trend lines. Those techniques all have a very static view of the tradable. They assume that the market will repeat past behaviour and experience, and can therefore be viewed linearly. They also use fixed intervals for inputs, which creates yet another dilemma. The old maxim: "A study of the past does not tell you anything about the future." The exception here is our interest in last week's resistance and support levels and those of the last trading session.

A tradable is *not* a static phenomenon. It will not disregard changes related to news and economic and industrial macro forces that influence price movements. A tradable is a complex and dynamic phenomenon, but it is clear that price fluctuates between levels of support and resistance. One way we can identify these levels in advance is through the use of pivot/resistance/support points previously mentioned.

THE PSYCHOLOGY

"People are people and, if they weren't, the forex would be a sleepy little alley that begins at a church and ends at a river, with little in between."

A primer on the psychological concept of support and resistance: support is a price level that indicates a temporary fair value of a tradable for the market. Prior to that level, sellers sold the tradable because they viewed it as being overpriced. The tradable is then pushed down to a level at which buyers step in and hold price at that new level.

At that "point", both sellers and buyers have reached a decision regarding the valuation of the tradable, based on their own individual methods of valuation. If buyers perceive this new level to be a good price for the tradable, they could conceivably add more buying pressure at the new level, eventually forcing price higher.

As to resistance, buyers keep pushing price higher. At higher price levels, however, sellers enter the picture looking for an opportunity to sell at inflated prices. This selling pressure, combined with higher volume, creates what we call resistance.

As expected, this jockeying back and forth between buyers and sellers is an attempt to determine "fair pricing." In and of itself, this invariably establishes price values for support and resistance. The only way I know of "documenting" these values is to calculate them based on the most recent price performance in the form of open, high, low, and close values. The resulting nine pivot points can then be used as price points to take buy/sell signals from. When price makes its move through one of these points, this suggests that price will continue in that direction.

RESISTANCE AND SUPPORT … ONE MORE TIME

Resistance is a level, or ceiling price, that a tradable repeatedly tries to go above, but fails.

Support is an area that a tradable repeatedly tries to go below, but fails.

After repeated attempts, the price will often finally break through the level it has been testing.

At a level of resistance, the tradable's price hits a ceiling, preventing it from going any higher. Selling then takes place as traders take their profits. Price then retreats to a level of support, where buying resumes. Traders see price as too low, and anticipate that profits lie ahead.

The area between levels of resistance and support is often called the *resistance/support area.* Price breaks out of this area when either of two conditions materializes: the number of repeated attempts to overcome resistance is greater than the number of attempts to break support (or vice versa), or buyers outnumber sellers – called an *upside breakout* – or sellers outnumber buyers – called a *downside breakout.*

Where you see price trying to overcome resistance more so than trying to penetrate support – i.e., more hits at the level of resistance than at the level of support – this means that buying is occurring at the top level, and price action could very well break through resistance.

Other important concepts: Previous resistance levels become support levels and vice versa. Areas of support and resistance act to support or resist further price changes at different times.

To conclude, a resistance level and a support level are levels at which the price of a tradable hesitates to go further, or fall below respectively. After repeated attempts, the price will make its move either way – or not at all.

Price breaks out of the resistance/support area when the number of repeated attempts to overcome resistance is greater than the number of attempts to break support (or vice versa), or buyers simply outnumber sellers or sellers outnumber buyers. But, this rule isn't hard and fast.

.

STOCHASTIC

This indicator is very popular with traders. It tells you where the current closing price is in relation to the recent range of the tradable.

The stochastic oscillator was designed to indicate when a market becomes overbought or oversold within a trading range. It produces readings between zero and 100. Readings over 70 indicate an *overbought* tradable. This means that the tradable has run up quickly due to an influx of buyers. Eventually, the tradable reaches a price level high enough that traders feel uncomfortable continuing to buy. Sellers enter the market to take profits, prices start to fall.

The decline may be short-lived, and an upward trend might resume, or the recent peak might represent a top, and much lower prices might be ahead. In that case, a move below 30 indicates an *oversold* situation. The expectations of a rally after reaching oversold levels are based on the same circumstances as the overbought, except the conditions are reversed; it is a situation in which the tradable falls precipitously due to an influx of sellers.

All of this is viewed as the normal ebb and flow of the market as it moves from one extreme to another. This type of market action is well-suited for an oscillating indicator giving guidance when the market reaches these extremes.

A typical scenario might read as follows: The tradable's peaks and bottoms are coincident with readings of above the 70 to 80 level for the market tops, and below the 20 to 30 level for the bottoms.

TRADING TACTICS

The forex is considered to be efficient because of its accessibility, lack of manipulation, and worldwide participation. You won't see wide differences between bid and offer prices here. Any discrepancies between bid and offer prices and between the prices of individual markets quickly dissipate as worldwide participants spring to action, and bring them closer together.

These are "zero-sum markets," meaning that for every unit bought, there is a unit sold. Price rises and declines in direct proportion to the aggressiveness of either the buyer or the seller. The underlying reason for aggressiveness on either side may be due to news, such as a government report. However, the real reason may not be known for several days or weeks.

Technical traders believe that prices are created in an efficient market. Accordingly, price represents fair value reflecting the impact of every single fundamental factor known by anyone, anywhere. Such traders don't care about the fundamentals that affected price behaviour. All they know is that price moved, and that there was a reason for it.
A price derived by this tug of war between the world's buyers and sellers represents a combined expression of their collective opinions. Price ultimately becomes the unanimous consensus of all people who step up to the plate, and put their money where their mouth is.

Prices created in such efficient markets are anticipatory. Traders respond to what they know to be true, and they take positions based on what they know. This is especially true of forward markets. Based on what is on the table in the present, what will tomorrow bring?

Bar charts are the favoured tool of the technical trader. Such charts show the open, high, low, and close for a period of time. Price action is represented as a vertical line connecting the high and low with a short, horizontal tick mark on the left denoting the opening price, and another on the right side for the close.

As far as the forex is concerned, a daily price chart can show the opening price in the Pacific Rim, and the closing price in the U.S. market, with the high and low established by any inter-bank price created between the Pacific Rim opening and the U.S. closing.

Bar charts can be created for almost any time period, from a few seconds to weeks, months, and even into years.

The individual vertical bar of a bar chart can be seen as the evidence of the tug of war between the bulls and the bears. Buying strength will pull price up to the high, while selling pressure will drag price down to the low. At the end of the trading session, when all is said and done, the centre of the rope is the closing price. Over time, a trend will emerge from the pattern of bars. The trend, of course, can be up, down, or sideways.

An *up trending market* is delineated by a line connecting the lows. A *down trending market* is similarly identified by a line connecting the highs. A *sideways trending market* is segregated by drawing a line connecting the highs, and another one connecting the lows, thereby forming a channel.

You will notice that price charts, over time, develop a ***saw tooth*** pattern. Prices rise for a while, decline for a while, and so it goes. What is happening here is the underlying tradable is cycling from being overbought to oversold. In an uptrend, ***smart traders*** buy weakness, while others aggressively push prices up, until a short-term high is reached. Then profit-taking sets in. This is where the smart traders sell strength. Still others just see a good selling and/or short opportunity. Either way, the result is a decline. As selling slows, the tradable reaches a short-term low, and buyers with their antennas up see opportunity.

As long as each successive low is at or above the uptrend line, the uptrend remains intact. A low below the uptrend line signals concern. As long as we are dealing with progressively ***higher highs and higher lows***, the uptrend is not violated. By virtue of price penetrating the uptrend line to form a low below it, this simply means that the uptrend is not as steep as it was before. The ***key*** here is that this low does not take out the pivot low, or swing low, that initiated the uptrend to begin with.

In a down trending market, we look for progressively ***lower highs and lower lows***.
The degree of bullishness of an uptrend line is expressed by the angle of the trend line, as price action unfolds. Increases/decreases in the angle of the uptrend line will create a fanned effect. This simply means that the tradable is becoming more or less bullish.

A tradable can change its uptrend line's attitude without reversing. In other words, it can experience different degrees of bullishness on its ascent, without changing course. Short-term volatility will cause this, without interrupting the long-term integrity of the trend. There are all sorts of rules for confirming that an uptrend has been broken, but I don't have enough space here to get into all of them. As long as we continue to see higher highs and higher lows, we're safe. One idea for a shift in direction might be that the closing price closes below the uptrend line twice – in two successive trading sessions.

Breakouts from sideways price channels are important events. They happen for a reason. A tradable can trade sideways due to apathy, balanced supply and demand, and/or little news. Buyers and sellers are not motivated to do much. The tradable just goes from being somewhat overbought to modestly oversold.

The thing to watch out for is that trade that goes above the upper channel line or below it in a sideways market. This means that something is happening, or is about to. No more apathy, for sure.

The upper channel line of a sideways market is an area of resistance. The lower channel line is an area of support. As prices rise to the upper channel line, buying wanes, and sellers take over. Sellers prevent any further rise in price. In reverse, as prices decline to the lower channel line, buyers support prices, and negate further weakness in price. Previous major highs and lows can also be seen as areas of resistance and support. They deserve your attention.

If a trading session's low is higher than the previous session's high (or its high is lower than the previous session's low), you will see a ***gap*** on the chart. This is seen as a very aggressive signal. You won't find many gaps in the forex (cash currency) market, because the trading day is 24 hours. A gap here would mean that an important event has taken place. This could have happened between the U.S. market close and the Pacific Rim market open.

A ***common gap*** is of short duration, and is quickly closed within a matter of days. To see what a gap looks like, and for more information on it, please refer back to that section in this e-book.

A ***breakaway gap*** foretells the breakout of a trend or channel. It is very meaningful, and implies that a bullish or bearish move is under way.

Continuation gaps confirm that a powerful trend is in place, and that it is accelerating.

An ***exhaustion gap*** is the last gasp of the market. It occurs just before a major high or low, and can be seen just before a market spike. The sheep are about to be shorn.

A spike in price is usually observed as a wide range in price at either an extreme high or low. If the spike is followed by a session of trading in the opposite direction, this can be a clear indication of a "*reversal*." Forex markets often experience spike highs and lows, since trend changes in currency are seldom subtle.

Good traders look at ***price patterns*** to help them justify their decision to enter or exit a trade. Good traders also look out for ***chart patterns*** that have historically indicated that trends will continue. Continuation patterns, which I call "confidence builders," are typically short-term periods of consolidation in price that form such things as flags and pennants in the price chart. As price breaks out of these formations in the direction of the trend, this means to the astute trader that the trend will continue.

Good traders are constantly looking for *tops and bottoms*. Although it is unrealistic to assume that you can always pick the absolute top or bottom, being able to know when one is forming is crucial to your ability to trade the new trend with confidence.

Double tops 'n bottoms (M or W formations) are indications of major resistance or support, respectively. However, two matching major highs do not a double top make. A double top is confirmed only when prices drop below the lowest price between the two tops. Failure to be patient and wait for this confirmation can give you a bad case of heartburn. You could get caught in a period of consolidation – a sideways trend. Triple tops and bottoms require the same confirmation to be valid.

The ***head-and-shoulders pattern***, and ***50% retracement***, are the most reliable ***reversal patterns*** there are in technical analysis. The first thrust of the H&S pattern is a significant high (or low). The second thrust exceeds the previous rally (or decline). The third thrust fails to make a new high. When prices drop below the "neck line," created by the previous reaction low (or high), the H&S is complete, and prices are sure to tumble (or rise).

<u>And, finally, a word on the U.S. Dollar, the #1 currency</u> …

Take out a one dollar bill, and look at it. The one dollar bill you're looking at first came off the presses in 1957 in its present design. This so-called paper money is in fact a cotton and linen blend, with red and blue minute silk fibers running through it. It is actually material. We've all washed it without it falling apart. A special blend of ink is used, the contents we will never know. It is overprinted with symbols and then it is starched to make it water resistant and pressed to give it that nice crisp look. If you look on the front of the bill, you will see the United States Treasury Seal. On the top you will see the scales for a balanced budget. In the center you have a carpenter's square, a tool used for an even cut. Underneath is the Key to the United States Treasury. That's all pretty easy to figure out, but what is on the back of that dollar bill is something we should all know. If you turn the bill over, you will see two circles. Both circles, together, comprise the Great Seal of the United States. The First Continental Congress requested that Benjamin Franklin and a group of men come up with a Seal. It took them four years to accomplish this task and another two years to get it approved. If you look at the left-hand circle, you will see a Pyramid. Notice the face is lighted, and the western side is dark. This country was just beginning. We had not begun to explore the West or decided what we could do for Western Civilization. The Pyramid is uncapped, again signifying that we were not even close to being finished. Inside the capstone you have the all-seeing eye, an ancient symbol for divinity. It was Franklin's belief that one man couldn't do it alone, but a group of men, with the help of God, could do anything. "IN GOD WE TRUST" is on this currency. The Latin above the pyramid, ANNUIT COEPTIS, means, "God has favored our undertaking," The Latin below the pyramid, NOVUS ORDO SECLORUM, means, "a new order has begun." At the base of the pyramid is the Roman numeral for 1776. If you look at the right-hand circle, and check it carefully, you will learn that it is on every National Cemetery in the United States. It is also on the Parade of Flags Walkway at the Bushnell, Florida National Cemetery, and is the centerpiece of most hero's monuments. Slightly modified, it is the seal of the President of the United States, and it is always visible whenever he speaks, yet very few people know what the symbols mean. The Bald Eagle was selected as a symbol for victory for two reasons: First, he is not afraid of a storm; he is strong, and he is smart enough to soar above it. Secondly, he wears no material crown. We had just broken from the King of England. Also, notice the shield is unsupported. This country can now stand on its own. At the top of that shield you have a white bar signifying congress, a unifying factor. We were coming together as one nation. In the Eagle's beak you will read, "E PLURIBUS UNUM," meaning, "one nation from many people." Above the Eagle, you have thirteen stars, representing the thirteen original colonies, and any clouds of misunderstanding rolling away. Again, we were coming together as one. Notice what the Eagle holds in his talons. He holds an olive branch and arrows. This country wants peace, but we will never be afraid to fight to preserve peace. The Eagle always wants to face the olive branch, but in time of war, his gaze turns toward the arrows. They say that the number 13 is an unlucky number. This is almost a worldwide belief. You will usually never see a room numbered 13, or any hotels or motels with a 13th floor. But think about this: 13 original colonies, 13 signers of the Declaration of Independence, 13 stripes on our flag, 13 steps on the Pyramid, 13 letters in the Latin above, 13 letters in "E Pluribus Unum", 13 stars above the Eagle, 13 bars on that shield, 13 leaves on the olive branch, 13 fruits, and if you look closely, 13 arrows. And, for minorities: the 13th Amendment. I always ask people, "Why don't you know this?" Your children don't know this, and their history teachers don't know this. Too many veterans have given up too much to ever let the meaning fade. Many veterans remember coming home to an America that didn't care. Too many veterans never came home at all.

QUOTABLE QUOTE

"Cash in the bank earns the square root of bugger-all."

TESTIMONIALS

Hear what Mark van Greunen of South Africa has to say:

"It is absolutely profound / uncanny how your Pivot Point System works when the prices reach a particular pivot number, well I have got to the stage of talking to my computer now (you might laugh, but it is true) as to the accuracy of your system.

Once again I personally think you are a genuine person who puts his money where his mouth is. There are not too many of your type in the world.

I finished reading your book last night. I personally think it is great and very unique. To be honest, this book must be marketed not only to forex traders but to commodity futures currency traders as well. Anyone who trades the currency markets (day trading or position trading) will benefit from your new book.

I do not believe what I am about to say to you is unique only to myself – but I believed that the more indicators I used, coupled with graphical tools such as trend lines, bollinger bands and moving averages made me a better trader; in fact, by the time I had switched off my computer, my eyes were sore with so much nonsense on my screen, and I had **LOST MONEY.** Now, you come along, and WITHOUT any indicators (MACD and Moving Averages, if you wish to use them), and blow technical trading out the water with a +70% accuracy rate.

Peter you need to market to market your Pivot System to large institutions, or maybe not, as I would rather take their money since this is Zero Sum Trading.

It will not be long now before we will see a new wave of very wealthy individuals coming onto the scene (all unknown to us), who will derive their multi-million incomes from forex trading.

This so-called new wave of wealthy forex traders will have an edge on the market unknown to 90% of the world's traders. I must THANK YOU for introducing me to your Pivots Trading System, as this is one of the GREATEST EDGES any trader will see and obtain, yet it is so simple to apply and to follow."

Hear what Rod Brown of Australia has to say:

"I am finding these pivot numbers very effective, and sometimes they are deadly accurate, and sometimes 10% to 30% of, but by using a 40 14 Stochastic and pattern analysis, I find I can pick the high and low for the day extremely accurately, and therefore can trade the range very effectively. In fact I refuse to believe it is this straight forword, as this week alone I have picked up close to 400pips trading only the cable and EUR without the Yen. I simply find it difficult to believe what is happening, in terms of how this helps you to gauge price movement.

Always good to hear from you - I must say you run and maintain a very **efficient and professional attitude towards both your trading profession and client relationship.** It feels extremely comfortable dealing with you, which is good to see when dealing on the net. I normally don't do business with people who I can not meet so this is quite different.

Thanks for your note you sent, much appreciated as always Peter. Last week I picked up 295 pips again trading only the GBP and EUR, as trading the Yen as well in the one day is a full time job. Since you have been training me upon purchasing your book over six weeks ago, I have been averaging 250 to 350 pips per week simply by adopting your strategies."

Hear what one of the largest non-bank online foreign exchange market makers in North America have to say

"I like the system ... very easy to use. I have taken a look at your program and it looks very good. I like systems such as this, which are easy to implement and get the job done. I will definitely mention your book and program to any clients who ask me about good trading systems. "

Hear what Kiran Karnad of Bangalore, India, has to say:

"Regarding your Pivots Program, this is toooo good to be true. It is working out just fine. The good thing about the pivots program is that, in spite of all the "external factors" in India, the values are highly reliable. "

Hear what Francois van Staden of South Africa has to say:

"Thank you, I have received your book in the mail, quite impressed with it I may add. I am only trading in the spot FX market, and have read through, and appreciate the e-book you mailed me. What an amazing piece that is ... WOW!!!!)"

WELCOME TO FX SOLUTIONS

FX Solutions stand apart from other brokerages in the area of slippage and execution. Orders are entered immediately and slippage is almost non-existent. They also allow for simultaneous buy and sell orders (hedging). In some cases, you may be both long and short the same currency, with different objectives. In the long trade, you may be looking for a bigger move, and the short trade you're trying to take advantage of a short retracement within the move.

FX Solutions uses lot sizes of US$10,000 rather than $100,000. This means that a person can trade with less margin if they so desire. Also, you can incrementally increase the margin that you are using with amounts less than $100,000 as the account grows.

They only have one lot size, 10,000 base currency. They allow self-traders to trade at a ratio of 100 to 1, which means that $100 controls one lot with a value of 10,000 base currency.

Since FX Solution's only lot size is 10,000 base currency, you could compare their lot size to FXCM's "mini" lot size, which is the same. FX Sol's pip spreads are 5 across the board, and they do not charge any commission; they allow hedging, their execution time averages between 2 1/2 to 4 seconds, and they RARELY if ever re-quote, unless there is a spike in the price, and what you see is what you get up to $10,000,000.

FXCM also does not charge a commission now on their "mini" account, BUT, there pip spreads are 5 for the euro and yen and more for the other majors and crosses. They do not have hedging capabilities.

One needs only $500.00 to open a self-trading fx account with FX Solutions, LLC. They do have a summer promotion in that if a new self-trader opens with $2,000 they will add $250 to their account.

Basically, 1) Smaller margin available; 2) Instant execution, no re-quotes; 3) Hedging allowed.

If you wish to see a free demo account showing you our self-trading fx platform, just go to www.fxsol.com and click on "free demo". After reading the users guide and going through the tutorial I am sure you will see why we are with them. Please mention my name when you make application to FX Solutions so that we can support you in your transition to that platform.

We hope you will join us at FX Solutions.

Thanks to Mr. Mandler of FX Solutions and Dr. Strouse for their input to the above specs. on FX Solutions.

TECH SUPPORT

Tech e-mal address is barry@fxsol.com. His name is Barry Mazza.

THOSE TRAITS YOU NEED TO TRADE THE FOREX SUCCESSFULLY

- Adaptable
- Knowledge
- Concentration
- No distractions
- Ambition and desire
- Passion for the business
- Ability to take direction
- Execution (Trust those indicators!)

Notice I didn't include money. That's because if you have a burning fire in your gut that trading the forex is what you want to do with your life, you'll soon find the money to do it with by begging, borrowing or stealing it. Well, forget the stealing part.

TRIVIA

More than HALF of all Americans have LESS than $1,000 in savings.
At age 65, 95% are dead broke or dead.

The end of September marks the beginning of autumn, and has been at time of reckoning for currency markets. They have seen violent moves around that time. The British pound was devalued on September 21, 1931, while the Plaza Accord to bring down the dollar was struck on September 21, 1985. The pound jumped the gun a bit by collapsing a few days before a French vote on the Maastricht Treaty for the European monetary union on September 20, 1992.

BRAIN TEASER

If you were to toss a coin five fair tosses, what is the probability of the coin landing heads five times in a row? As a hint, remember that the tosses constitute a sequence of events.

Answer (backwards): .23 ni 1 ro, rewop htfif eht ot 2/1 si ytilibaborp ehT

TO CONCLUDE

… And, finally, some words of wisdom from someone who is somewhat older and wiser – namely me, Peter R. Bain:

I believe that the pursuit of the almighty dollar through trading is certainly a noble thing to do. But, as the Chinese proverb states, "Those who constantly chase money go to bed tired." Quite frankly, it's more about getting our priorities and values straight in life – maintaining health, family and friendships, and choosing where to live.

The single-minded pursuit of money in one's life can create so much stress and anxiety that it may undermine health, relationships and other interests.

It's not necessary to rack up a US$1-million trading account to retire well. In the aftermath of September 11th, thousands of people are saying they value people more than things, family more than finances.

As traders, all we can do is set the course we believe best enhances our odds, then stick to it. If, despite our best efforts, things turn out differently than we had hoped, we must maintain our equanimity.

Whether living or trading, the most useful attitude is suggested by the famous Serenity Prayer attributed to theologian Reinhold Neibuhr in 1934. "God grant me the serenity to accept the things I cannot change, courage to change the things I can, and the wisdom to know the difference."