Beat The Market Maker

WITH STEVE MAURO

TABLE OF CONTENTS

Introduction

In order to be the man, you gotta beat the man! This advice, though pertinent, seems to be easier said than done when it comes to trading. Trading, Forex or otherwise, is a zero sum game, in which the weaker retail traders are positioned against the mighty bank traders, and institutional professionals. This mismatch is further exploited by a complete lack of transparency. You see, in Forex there is no trading floor, no accurate measure of open volume, and simply no way to tell how the institutional traders are positioned…or so I thought! This book serves to explain how the markets are manipulated by market makers in order to beat the retail traders. The good news is that this "market manipulation" leaves predictable, distinguishable clues in its wake. Interpreting these behaviors correctly, can put you on the right side of the trade with consistency, and accuracy, unheard of in the trading business!

How Did I Get Here?

Although it seems like yesterday, my journey began almost 12 years ago. Lying awake one night, clicking through the channels, I saw an infomercial that instantly piqued my interest.

The man asked, “Are you ready to take control of your financial future?

“Yes, I was.”

Are you ready to start earning money right from home…in your pajamas?

“Sign me up,” I thought.

After listening a little longer, I learned the product being offered was an out-of-the-box trading system that anyone could learn and master. This system used traffic light signals to execute trades. It seemed simple enough.

“I can do that,” I thought.

They had me reaching for the phone before I ever even heard the customary “but wait…there’s more” infomercial lingo.

With childlike vigor, I started executing trades when the lights turned green, and again when the lights turned red. Winning some and growing my personal account by 25…50 and 100%. I had started my trading career. Unfortunately, those profits were very short lived. This red-light, green-light system signaled me into returning my good fortune back over to the market as the lights failed to produce any hint of consistency. It wasn’t all bad though. This simple system had ignited a fire in me that still burns bright to this day. I couldn’t believe that I was able to grab big gains, and make more money in one day than most hard working people make in a month…. I was hooked! I just had to find out a way to keep it.

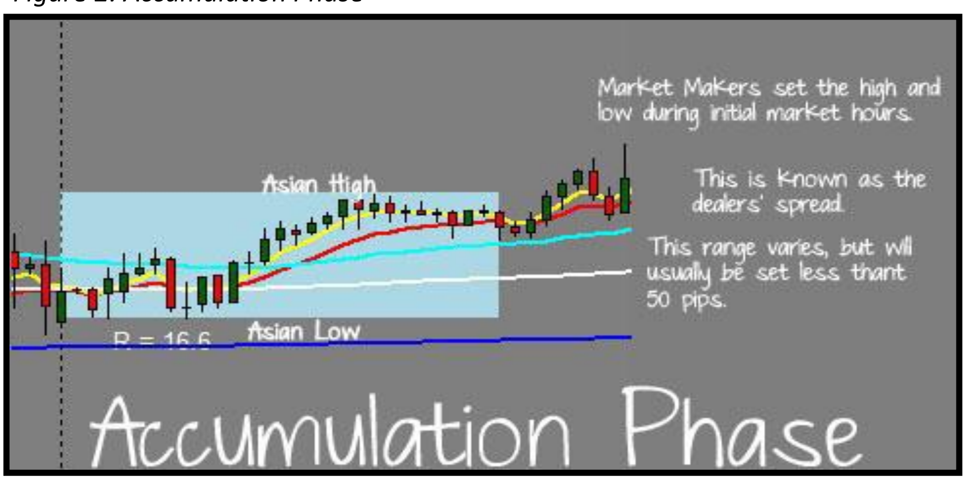
Like many of you, I buried myself in technical books, classes, and anything that hinted at making me a better trader. I lived and breathed Forex, and I couldn't get enough knowledge to fill me up. I would talk to anyone that would listen, and it wasn't until a chance meeting through a friend that changed *my* life and the life of those around me forever.

I was provided an extraordinarily unique opportunity to study under a market maker. So, in preparing to beat the man, I had to first learn from the man. What exactly does this mean for you? Well, I'm ready to share my knowledge. I don't want you to hand over another dime of your hard earned money to the tricks and manipulations used by the dealers.

The Cycle

First of all, let me ask you, "Have you ever heard of a market maker?" Others will tell you that they don't exist in the Forex market: that the Forex market is too big to be manipulated. Well, I'm here to tell you otherwise. There is a small elite group of traders that do in fact control how the market will play out on any given day. The beauty of what I am about to share with you boils down to this: These manipulations are visible on the chart to the trained eye. Once you see the behaviors and understand what they mean, you will be able to trade like a market maker!

Figure 2: Accumulation Phase



At 5 pm EST, the high/low are reset. The price comes in, and the market makers make a quick push up, 15-25 pips. They make a quick pull back down, and then go sideways. They push it again 15-25 pips.

Why would they do this? When they push up, you're a buyer, and they sell to you. When they push down, you're a seller, and they'll buy from you. They are accumulating contracts, and building up the volume.

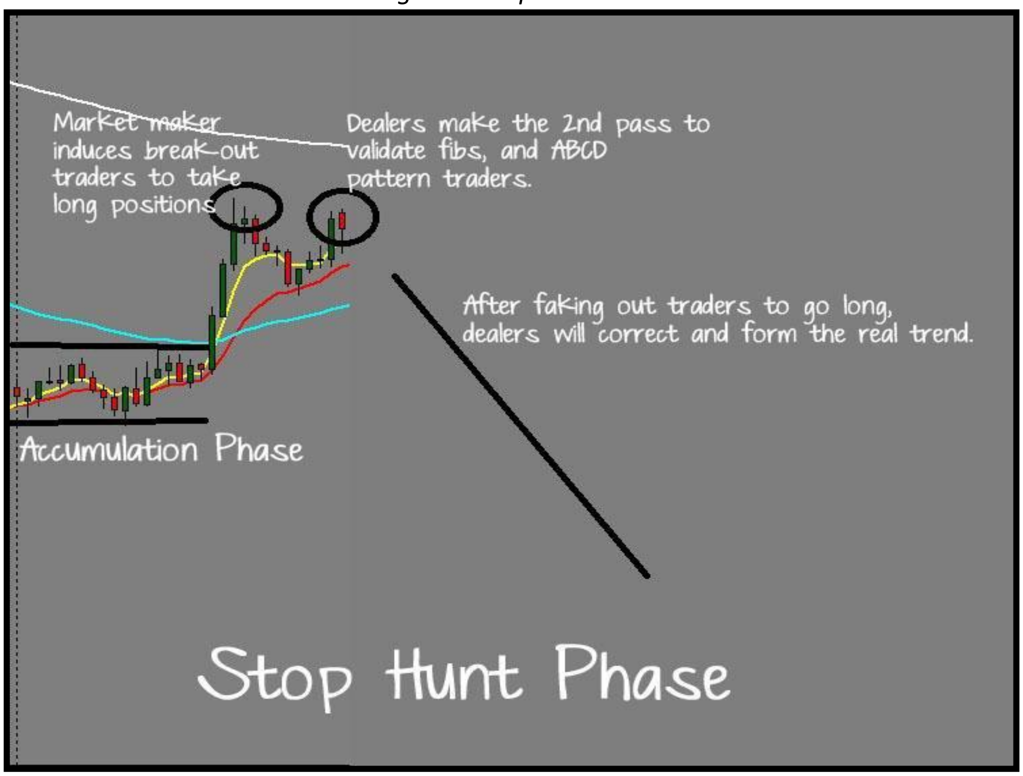
Have you ever heard of 1 hour, 4 hour, daily, trade in the direction of the trend? Why doesn't trend following work? It's not about the trend, it's about the money. All the market makers do is wait for the money to build up during the accumulation phase, and see where the contracts are accumulated.

In figure 1.1, let's say they have 3 trillion dollar in long-holders, and 1 trillion dollars in short-sellers. Guess who's getting punished today? Long-holders. It's simple. It has nothing to do with the 1 hour, 4 hour, which way it's pointed, or which way it's going. It's where the dollar volume is built up that they can do the most damage, and collect the contracts.

Sometime between 1 am EST and 4 am EST, they'll break out of the Asian range in 3 swipes. They'll quickly change the high of the day, settle in, and work it for 30-90 minutes. This is a two-pronged approach. The reason they use the number three is because we are stubborn. They hit it one time, and we think, "Oh, maybe it's not really going that way. It'll come right back." They hit it a second time, and we think "Oh, I'm missing it!" They hit it a third time and you finally get excited and give in that you were wrong, and switch your direction. Now, you've changed in the wrong direction, which is their first break-out of the Asian channel, to get you to recommit your money the other way.

What happens when they break out of the range is they trigger the stops of the weak short-sellers, the people that put their stops on the other side of the Asian range, people who put their stops 7 pips below the candle. That's all garbage...they hit them! They cancel out this volume, and get those traders to recommit their funds long. So, let's say half of the people come back in, and the 3 trillion dollars has now become 3.5 trillion dollars long. What is the goal for the market makers, now? To get that money! How do they do it? There are a lot of people that trade the ABCD patterns (AB=CD), the Fibonacci extensions: when the market makers make their pullback, they make one more pass toward the high of the day. When they make this pass, people put pending orders right above the high. The job of the market makers is to go to the high, open the spread, trigger the pending orders, and validate all of the patterns that can be found in textbooks. When they fire those pending orders, all of those pattern traders are now stuck. They quickly pull off of the high of the day 25-50 pips, to trap the traders in that cycle, and hold them there.

Figure 3:Stop Hunt Phase

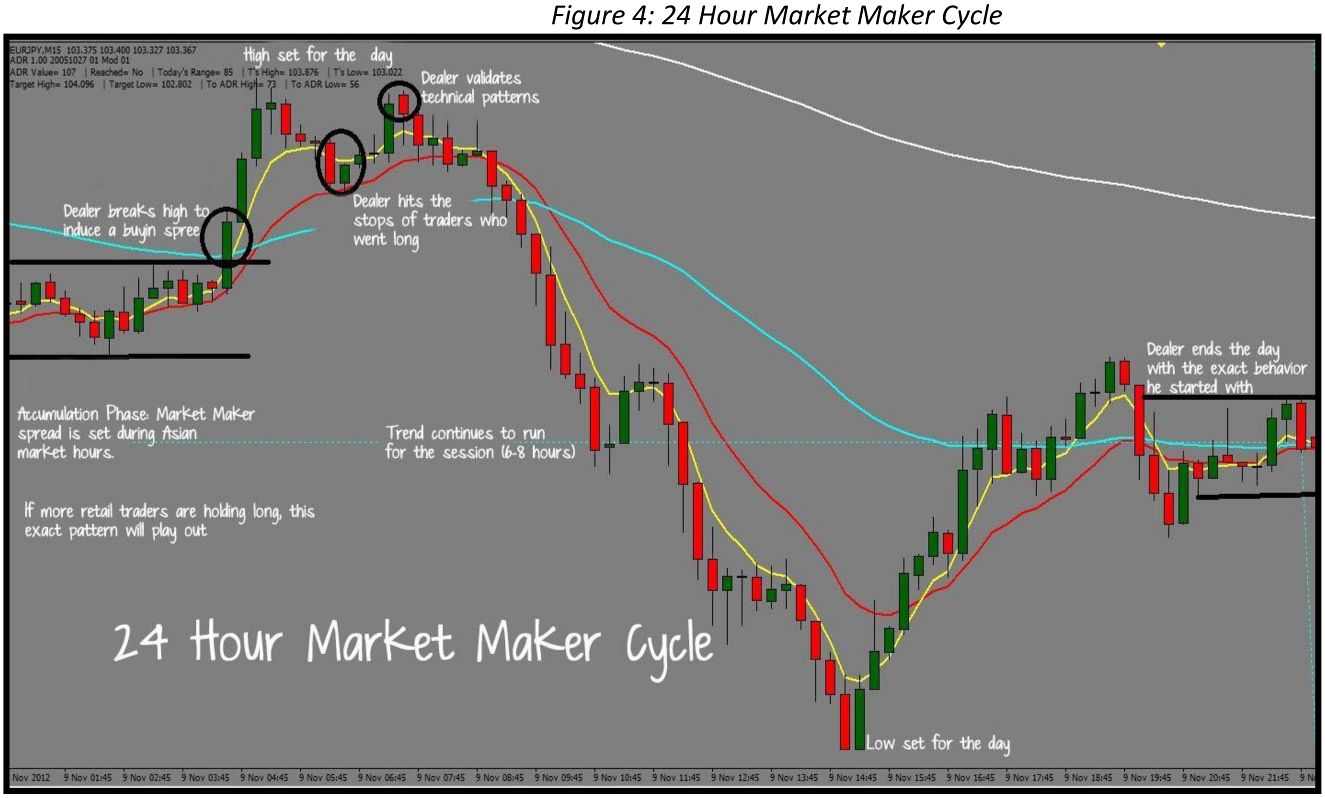


Have you ever taken a trade, and been so excited that you started counting your money, and projecting that it's going to go to sky, and you take a break, go have a cup of coffee, and when you come back you're down big? You ask yourself, "What the hell just happened?" We've all had that happen to us. Market makers went to the high, opened the spread, triggered all of the break- out traders, triggered the ABCD pattern, triggered the Fibonacci traders, and pulled them in. Now they've got them stuck! They go into consolidation 25-50 pips off of the high, trade sideways for a few minutes, and what do you start doing?

You start begging and pleading. "Please, if it just comes back I'll get out. I've learned my lesson this time, I won't do it again." That's what everyone starts doing...hoping it comes back. Hope is not a strategy! We're not in the "hope" business!

Then, what happens after they consolidate 60 minutes or so, they will start the trend run against their original move. Once they set the high of the day off of the break, they'll start the channel, and run the trend down for 6-8 hours. If you're going the wrong way, it's a nightmare! It's slow, relentless, and it just keeps going, and going, and going. You think it's going to hold, and you start making up stuff in your head, and seeing things in the charts that aren't there. You start making up reasons to validate why you were wrong instead of understanding the true market structure. After the trend runs 6-8 hours it will go into the low of the day, and the same behavior is seen. They'll make an M at the high, a W at the low.

Figure 4: 24 Hour Market Maker Cycle



Why? People trade the break of the low from yesterday, and even from 2 or 3 days ago. They will get to those lows, act aggressively again, open the spread, absorb the pendings, validate the patterns that everybody trades, and snatch it away from them.

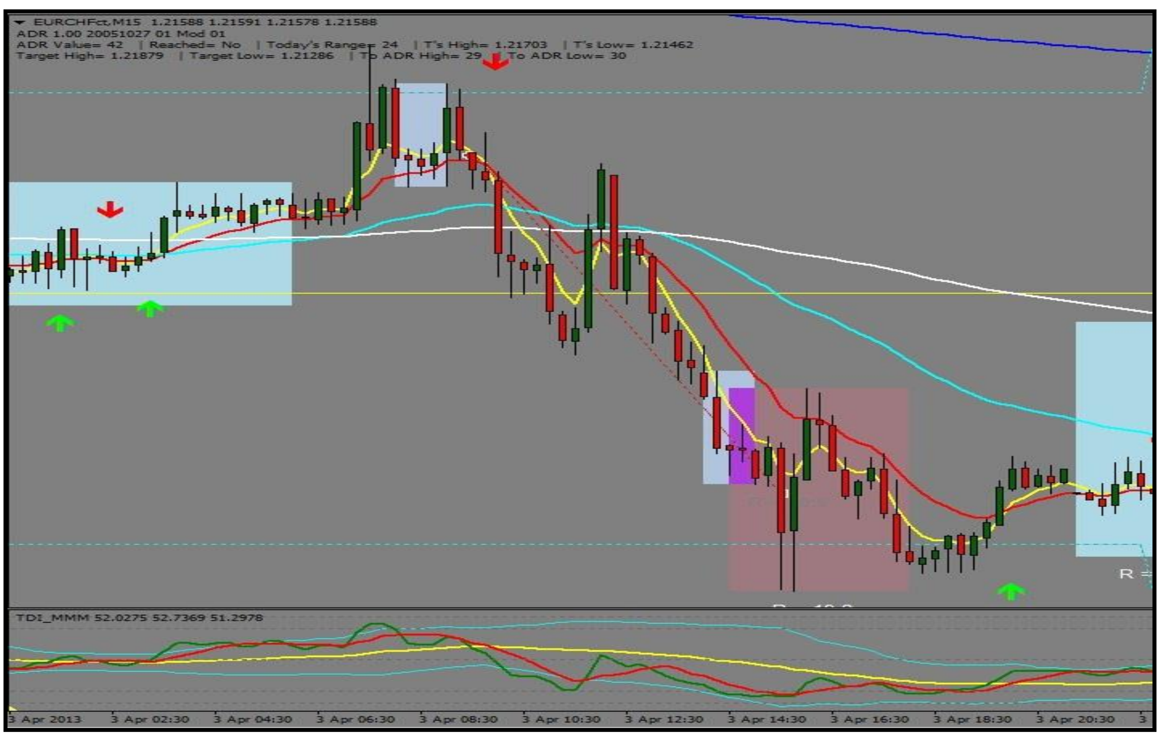
They'll pull it off of the low; go back into consolidation to end the day 25-50 pips off of the low.

Why do they do that? Why do they pull it away? Have you ever been in a trade that's up 100 pips, then by 3-4:00pm it’s only up 60 because they've pulled off the high? They don't want to start from zero. Market makers want to leave the volume trapped for tomorrow so they don't have to start from a zero dollar amount. If you had this type of control wouldn’t you do the same?

How *you* can profit from this market cycle

Understanding this cycle gives you a major edge in your trading! Once you can identify it on the chart, taking trades is simple; second nature even.

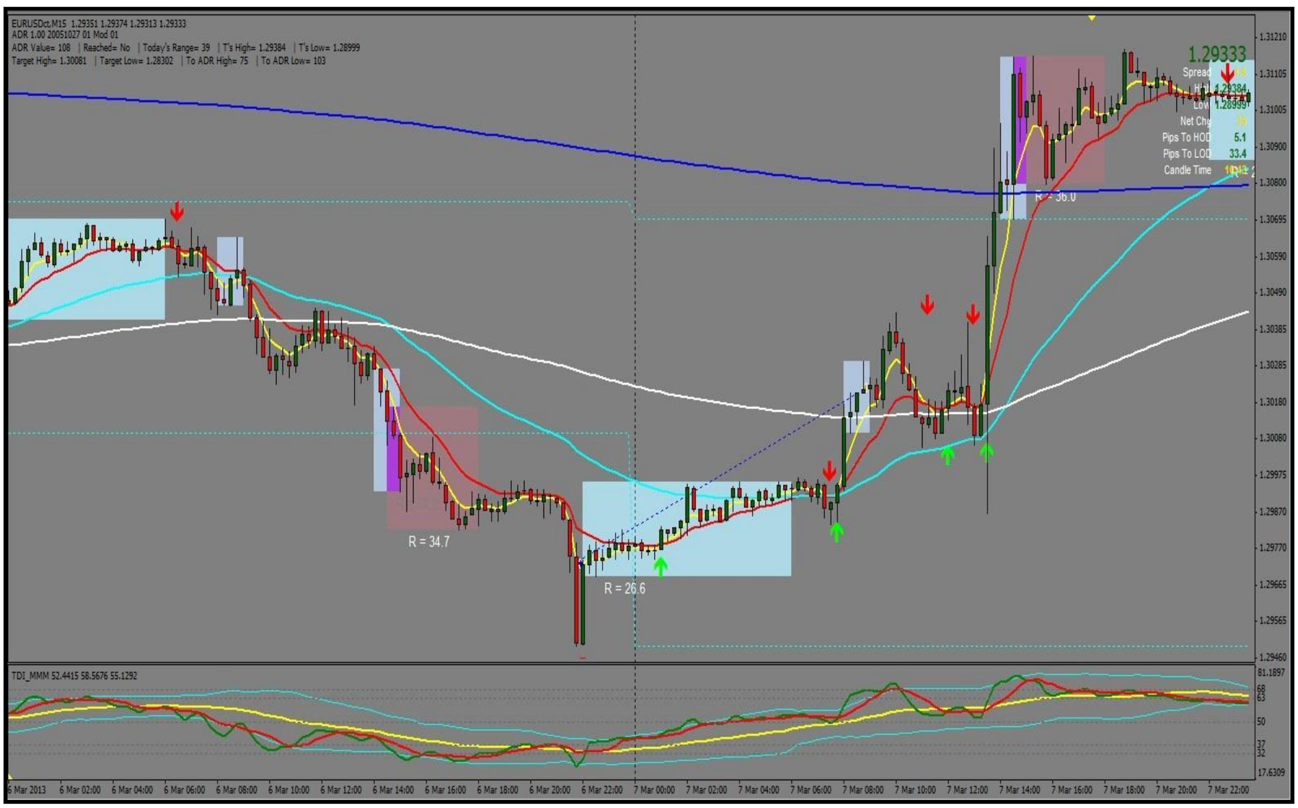
Figure 5: Profitable Short Trade



Just initiate short positions once the high is set for the day, or long positions once the low is established. Your stop loss for short trades is placed just outside the dealers grasp, above the high, or for long trades, below the low. If you are correct in your assessment, your stop will rarely be triggered, because the dealer will not move the entire market just to grab your stop loss. You see, if he does, he will allow other traders to exit their trades.

How many times have you told yourself that if price comes back on a bad trade you will simply click out? Market makers are aware of this, so they come near previous levels but don't break them. This is added confirmation that you have obtained an excellent entry!

Figure 6: Profitable Long Trade



Next Steps

So what now? *I* challenge *you* to go back and look through your charts. I am certain by applying what you've learned in this book, you will see an immediate improvement in your trades. Please visit my website to view a supplementary video where I illustrate this exact concept in further detail. 'Till then...trade like a market maker, or don't trade at all!!

Steve Mauro

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