

# Forex Systems

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## Helpful Information for all Forex Trading Systems

Building blocks that I believe to be foundations to the Forex Profit System.

**Foundation #1:** I highly recommend that you follow 1 or maybe 2 major currency pairs. It gets far too complicated to keep tabs on all four. I also recommend that traders choose one of the majors because the spread is the best and they are the most liquid. I personally follow only USD/CHF because it moves the most every day.

**Foundation #2:** Follow and understand the daily Forex News and Analysis of the professional currency analysts. Even though this system is based solely on technical analysis of charts, it is important to get a birds-eye view of the currency markets and the news that affects the prices. It is also important that you know and understand what the key technical ‘support’ and ‘resistance’ levels are in the currency pair that you want to trade. Support is a predicted level to buy (where currency pair should move up on the charts), resistance is a predicted level to sell (where the currency pair should move down on the charts).

Fortunately, all the best Forex news and analysis is offered free on the Internet. Here is what you should do first:

\*While you are reading the daily news and technical analysis, write down on a piece of paper what direction the analysts are saying about the major currency pair you are following and the key support and resistance levels for the day.

- Go to [forexnews.com](http://forexnews.com) and you will find 24hr news and analysis on the spot FX markets. The site will give you the big picture of how the economic calendar and central banks affect the currency markets. A great resource.
- Then go to [fxstreet.com](http://fxstreet.com) and click on the ‘Top Forex Reports’. Here there is a wonderful listing of all the major daily currency analysis and forecasts with support and resistance and direction forecasts.
- Click on [currencypro.com](http://currencypro.com) and go to ‘Today’s Market Research’ and there you will find more excellent analysis on the Major Currency pairs. Another great Forex Portal.
- [www.moneytec.com](http://www.moneytec.com)
- Free Forex trading forum: [www.forexdirectory.net](http://www.forexdirectory.net)
- Comprehensive listing of everything, related to the Forex Markets: [www.mgforex.com/resource/glossary.asp](http://www.mgforex.com/resource/glossary.asp)

**Foundation #3:** Only get into a trade when the FPS technical indicators say when. Always trade with stop losses! It is important when you are trading Forex, to be disciplined and to stick to a plan. Don’t just trade your ‘gut’ feeling. Use the technical indicators outlined and always enter in stop losses on every trade.

**Foundation #4:** Practice makes perfect. As they say, there is no substitute for hard work and diligence. Practice this system on a demo account and pretend the virtual money is your own real money. Do not open a live trading account until you are profitable trading on a demo account. Stick to the plan and you can be successful.

**Foundation #5: Trade with a DISCIPLINED Plan:**

The problem with many traders is that they take shopping more seriously than trading. The average shopper would not spend \$400 without serious research and examination of the product he is about to purchase, yet the average trader would make a trade that could easily cost him \$400 based on little more than a “feeling” or “hunch.” Be sure that you have a plan in place BEFORE you start to trade. The plan must include stop and limit levels for the trade, as your analysis should encompass the expected downside as well as the expected upside.

**Foundation #6: Cut your losses early and Let your Profits Run:**

This simple concept is one of the most difficult to implement and is the cause of most traders demise. Most traders violate their predetermined plan and take their profits before reaching their profit target because they feel uncomfortable sitting on a profitable position. These same people will easily sit on losing positions, allowing the market to move against them for hundreds of points in hopes that the market will come back. In addition, traders who have had their stops hit a few times only to see the market go back in their favor once they are out, are quick to remove stops from their trading on the belief that this will always be the case. Stops are there to be hit, and to stop you from losing more then a predetermined amount! The mistaken belief is that every trade should be profitable. If you can get 3 out of 6 trades to be profitable then you are doing well. How then do you make money with only half of your trades being winners? You simply allow your profits on the winners to run and make sure that your losses are minimal.

**Foundation #7: Do not marry your trades**

The reason trading with a plan is the #1 tip is because most objective analysis is done before the trade is executed. Once a trader is in a position he/she tends to analyze the market differently in the “hopes” that the market will move in a favorable direction rather than objectively looking at the changing factors that may have turned against your original analysis. This is especially true of losses. Traders with a losing position tend to marry their position, which causes them to disregard the fact that all signs point towards continued losses.

**Foundation #8: Do not bet the farm**

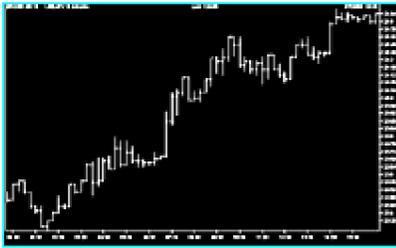
Do not over trade. One of the most common mistakes that traders make is leveraging their account too high by trading much larger sizes than their account should prudently trade. Leverage is a double-edged sword. Just because one lot (100,000 units) of currency only requires \$1000 as a minimum margin deposit, it does not mean that a trader with \$5000 in his account should be able to trade 5 lots. One lot is \$100,000 and should be treated as a \$100,000 investment and not the \$1000 put up as margin. Most traders analyze the charts correctly and place sensible trades, yet they tend to over leverage themselves. As a consequence of this, they are often forced to exit a position at the wrong time. A good rule of thumb is to never use more than 10% of your account at any given time.

**Trading Strategy: TRENDS**



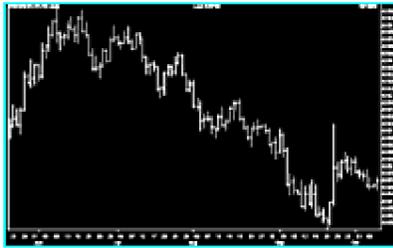
Trend is simply the overall direction prices are moving -- UP, DOWN, OR FLAT. The direction of the trend is absolutely essential to trading and analyzing the market. In the Foreign Exchange (FX) Market, it is possible to profit from UP and Down movements, because of the buying and selling of one currency and against the other currency e.g. Buy US Dollar Sell Japanese Yen ex. Up Trend chart.

## THERE ARE THREE TYPES OF TREND;



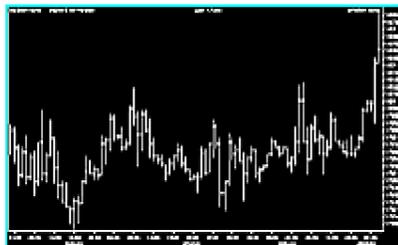
### UP TREND

As the trend moves upward the US Dollar is appreciating in value



### DOWN TREND

As the trend moves downward the US Dollar is depreciating in value



### SIDEWAYS TREND

Prices are moving within a narrow range (The currencies are neither appreciating nor depreciating)

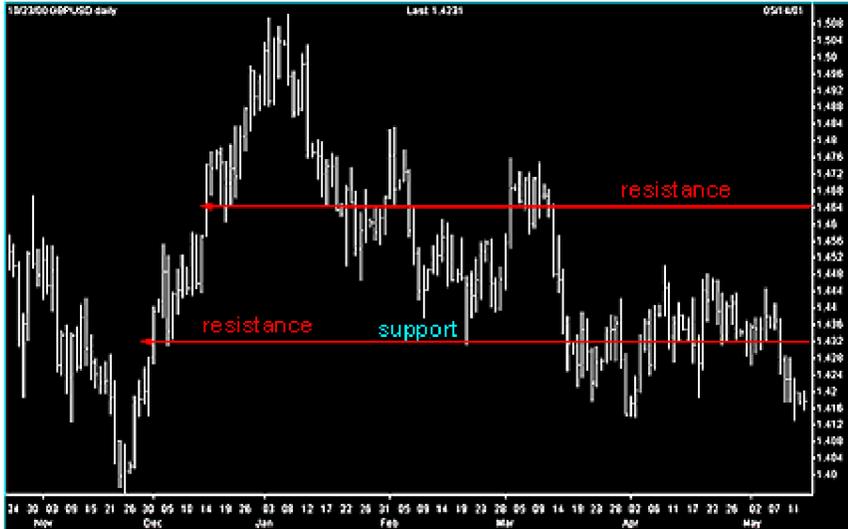
## SUPPORT

Price supports are price areas where traders find that it is difficult for market prices to penetrate lower. Buying interest in the dollar is strong enough to overcome. Selling interest in the dollar keeping prices at a sustained level.



## RESISTANCE

Resistance is the opposite of support and represents a price level where Selling Interest overcomes Buying interest and advancing prices are turning back.



**RETRACEMENTS**

50% Retracement.



There are also 33% and 66% Retracements.



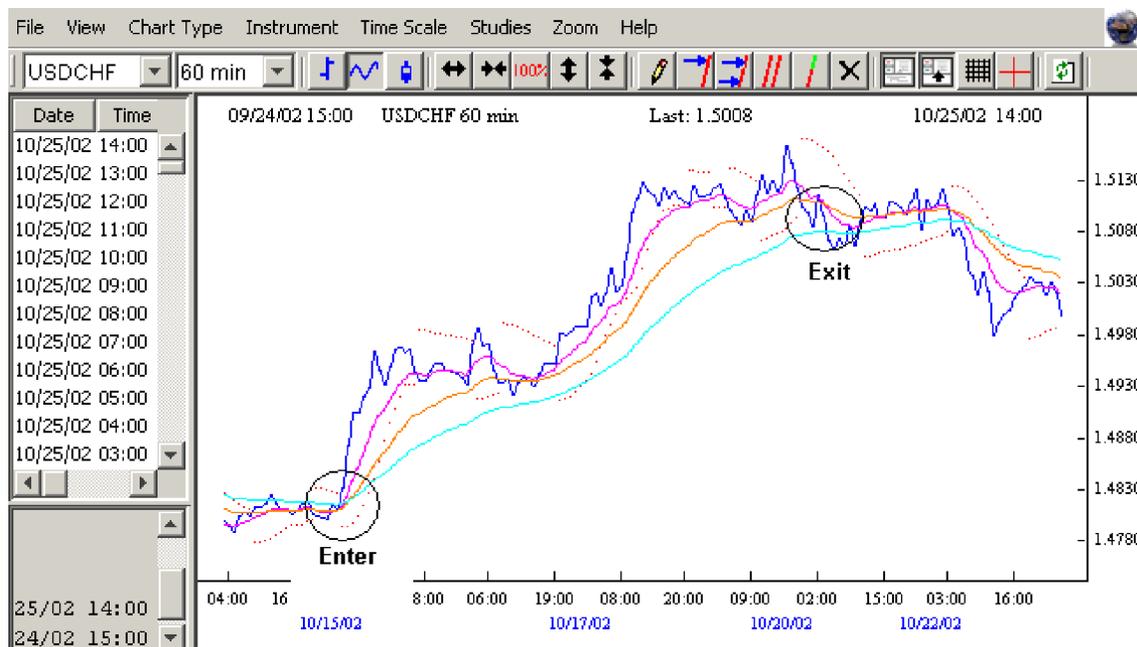
# Forex Profit System

## Step 1: Prepare your charts

The Forex Profit System uses 2 technical indicators to show you when you should enter and exit a trade. These are called the Parabolic SAR and the Exponential Moving Average 10, 25 and 50.

- A. Setup a 60 minute USD/CHF chart. This is my favorite currency pair to trade because it swings up and down the most. You can choose any major pair you like though.
- B. Choose Parabolic SAR as an indicator. Click on display when it shows you the .02 and .2 acceleration factor and constant.
- C. Choose Moving Averages, Exponential 10, 25 and 50.
- D. Click on Exponential, then enter 10 in the Period box, then OK
- E. You should have the Parabolic SAR and the three EMA's 10, 25 and 50 in different colors on your charts.

## Step 2: When to Enter and Exit your Trades



This is what your chart should look like. These are the FPS indicators that I use to trade. The EMA 10 should be in pink, the EMA 25 should be in yellow, and the EMA 50 should be in blue. The Parabolic SAR is charted with dots above and below the line.

### When to ENTER a trade

The FPS indicators tell you when to get into a trade when the EMA ten crosses the 25 and the 50. If the ten crosses the 25 and 50 up from the bottom, you enter your trade 'long' and 'buy'. If the 10 cross the 25 and 50 down from the top you go 'short' and 'sell'. Make sure that when you get into your trade that the Parabolic SAR is on the bottom when you go long and on the top when you go short.

In the example above, on October 15th, there was a great opportunity to go long on the USD/CHF pair, where I circled and labeled enter. Notice how the EMA 10 crossed up the 25 and 50 and the Par SAR was on the bottom.

\*If you are trading the hourly charts like in the above example, make sure that the 15 min charts Parabolic SAR is going the same way. Simply click on the arrow beside the 60 min and change it to 15 min and your studies will automatically adjust to the new time frame. Never trade against the 15 min Parabolic SAR!

### When to EXIT a trade

The best time to exit a trade is when the price crosses back down through all 3 EMA's on the chart. Notice in the above example that the Dark Blue line—the actual price of USD/CHF on the 20th crossed back down all three indicators where I circled EXIT. If you held this position all week, you could have made a 275 pip profit.

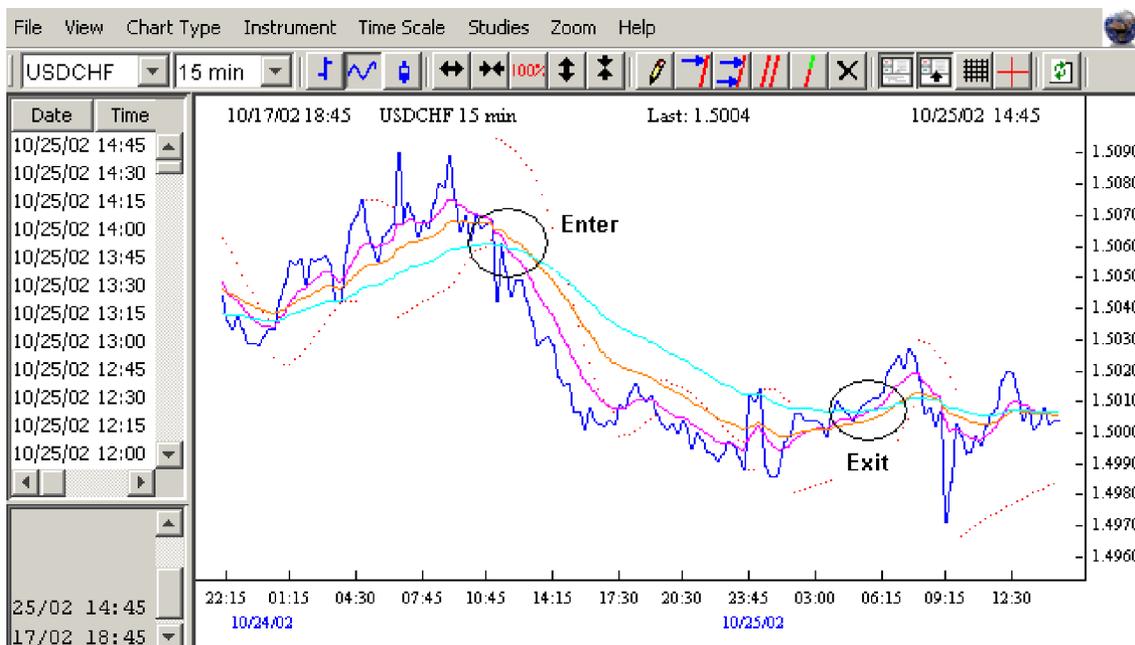
With 1 lot traded on a standard account this would have been approximately \$1780.00 in profit. With 2 lots--\$3560! A mini account would have profited you \$178 and \$356 respectively.

If you profited 275 pips with EUR/USD or GBP/USD you would have made approximately \$10 per pip, which you would have made \$2750 with one lot and \$5500 with 2 lots traded. Not bad for one week!

### Where to Set the Stop Loss

When you open a demo account you will find on the online trading platform that you will always be able to enter a stop order level that will automatically stop out your trade at the level you set, or a limit order that will close your position at your desired profit level.

Using the FPS means that you should always set your level just below the EMA 50. As your position moves in the right direction, you should move your stop accordingly. Then if your position moves against you, you would have locked in your profits by moving up your stop order. It is important that if the prices cross back over the 10, 25 and 50 that you close your position. Here is an example of how the FPS works on the 15 min charts:



Using the FPS on the 15 min charts is more volatile, but it will give you more trades on an intra-day basis. On the example above you could have sold the USD/CHF 'short' at 1.5060 and closed your position at 1.5000 for a 60 pip profit.

One note of caution trading the 15 min charts: there are often times when the price will 'whipsaw' back and forth, up and down through the 10,25 and 50 moving averages. If this happens soon after you entered a trade, close your position and wait till the moving averages fan out and the Parabolic SAR signals strong.

# 'Scalp' Trading the 1min Charts System

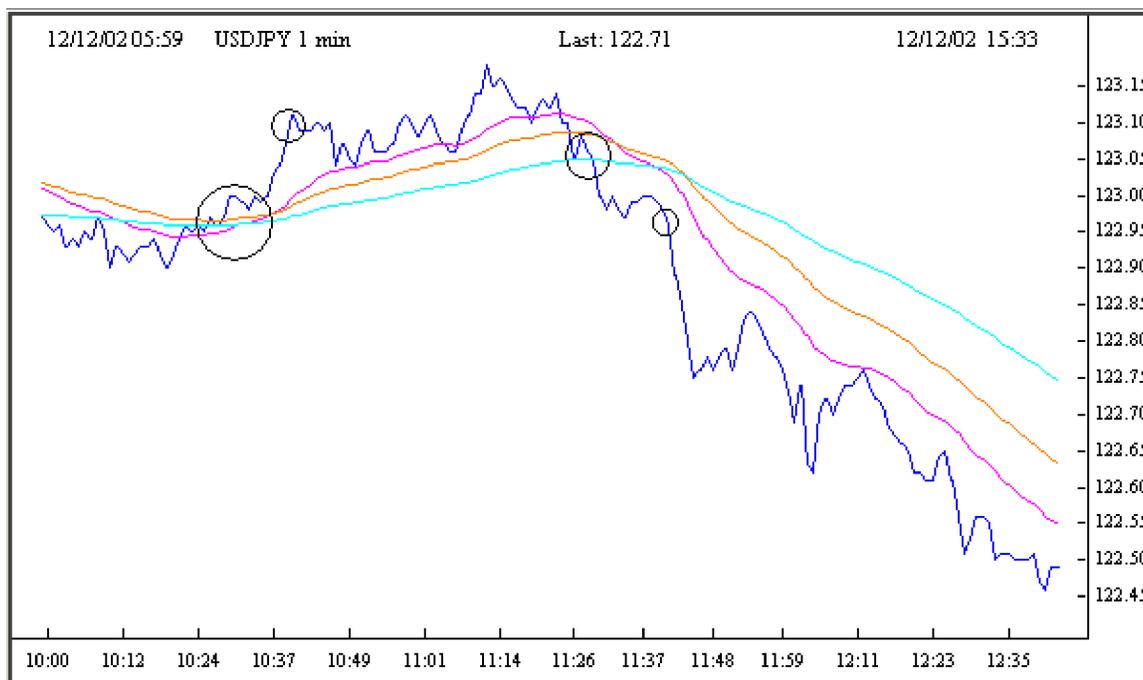
Scalp trading is when you use the 1 to 5 min charts to 'scalp' small profits. These trades usually only last a few minutes to an hour.

You can use the FPS to scalp trade Forex on the 1 min charts. Here is how:

Instead of using the 10, 25, 50 EMA's like we did in the above examples, put on the 25, 50 and 100 EMA's. Often it is best to scalp trade at the London Open (3:00AM EST) or the New York open (8:00 AM EST) because that is generally when the currency pairs will start to move more in one direction.

When the actual price crosses all three indicators, you enter your trade, long or short. If the price crosses down through the 100 EMA, enter short, if the price crosses up through the 100 EMA go long.

Make sure that you book a 5-10 pip profit. That is a \$50-\$100 dollar profit on a regular account, and more if you bought more lots. Don't try to hang on to your winning position too long, because the price can whipsaw back and you can lose. Take your 5-10 pip profit as soon as you can. Here is an example on the 1 min charts:



Notice that at 10:30 EST you could have entered USD/JPY long (big circle) when the price crossed up through the 100 EMA and at 10:45 you could have closed your position (little circle) and made a 10 pip profit. Then again the price crossed back down through the 100 EMA at 11:30 EST. You could have sold the Yen short (big circle) and then ten minutes later made another 10 pip profit. (little circle)

# Moving Average Intraday System

## The Setup:

1. Open up your trading platform and open a chart.
2. Set the instrument to the currency pair of your choice.
3. Set the chart pattern to filled candle.
4. Set the timeframe to 30 minutes
5. Set up a moving average line in your indicators menu. -set period to 11 days

Now that you have your chart setup properly, go ahead and set up your normal indicators that you use for reassurance and entrance/exit, etc. I use an MACD, a volume indicator, and Bollinger bands, but everyone has their own theory on what works and why, and everyone has a reason why your indicators don't work when they seem to work just fine for you!

Now before I explain what you are doing with this setup I would like you to set up the chart as I have indicated, and take a good solid look at the history of the data. Do you see any telltale signs yet, or have a clue as to what the point of the setup is yet? If you do not, do not worry or feel inferior, as this has slipped past some of the best. I happen to be great with numbers and have a strong background in analysis, so I was able to pick up on this trend mostly by dumb luck but good fortune and a keen eye for detail.

Now that you have stared at your screen looking for it, I'll explain myself. What you are looking for is the moving average line, or herein referred to as the MA, that you set up on your chart to cross through the price line. You are probably saying to yourself, "This happens like every hour or so, what gives?". Well, it does happen fairly often, maybe not that drastically, but it does. The key point is where the MA crosses the price line. You don't need to worry or care about it crossing the thin peaks of the high/low lines on the candle, but you want to concentrate on it crossing through the middle of the wide, filled part of the candle, the open-close prices. And further yet, it must cross in around the middle of this center section. If it crosses at the top or bottom of the candle centre area, than you can pretty much disregard the trade. It may be profitable, but not worth the risk. Stick with the center of the central region and you will be much safer.

Now, when the MA indeed crosses the price line through the centre of the central wide part of the candle, a trade signal is triggered. You should try and wait at least one more candle before entering a position just to ensure that the cross wasn't a blip on the radar and its not about to recant its previous move. The chart is set to the 30 minute timeframe, so generally wait 30 minutes or so, unless the market suddenly takes a quick shift in that direction. Then you can open the position to catch the swing.

Now to determine direction. If the MA moves from above the price line to below it, the trade is going to be long. And likewise, if the MA moves through the candle from below the price line, the trade will be short. This can be verified by checking your indicators that you have set up to corroborate with your MA. To better clarify this direction idea, if after the cross the price is below the MA, the price is most likely dropping or SHORT. If the after the cross the price is above the MA, the price is considered to be rising and the trade is LONG.

Another important factor to consider. While an MACD is a great too to determine market direction and activity, in this case it helps to build on the strength of the trend that we are pointing out here. If the MA crosses the price line from above to below, so that the trade we have forecasted is long, we can compare this with the MACD. If the MACD average lines are above the zero line, then you can expect a large climb. If the trade was reported as short, and the average lines on the MACD screen were below the zero line, you could expect to see a rather large drop. When I say large drop or gain, I am speaking of 75, 100, 150 point gains. This is not to say that if, on a long trade for instance, the average lines on the MACD are BELOW the zero that you will NOT see a gain. It generally will provide a gain, but of 20, 30, or maybe even 50 points. Where you exit the trade is up to you and how much you can tolerate and are willing to risk. If you feel comfortable taking 30 points and are okay with yourself if it does end up going to 150 points above your buy price, then good for you. If you are a thrill-seeker and go for the 150, I wish you all the best of luck! You may or may not need it.

That's it! It's just that simple! If you move back through the history of the chart and look at when and where the MA crosses the price line, you can see for yourself that it seems to catch every big movement, and almost all of the smaller ones. This set can be used on the 60minute chart for mid-term trades and further yet on the daily chart for longer term setups.

Make sure that you are using your regular technical indicators to monitor market activity and ensure the trade is on target. If you are looking to enter a short and your MACD says long, or the 30 minute chart is oversold, you are asking for trouble. You need checks and balances with any system to eliminate as much of the margin of error as possible.

# The Day Trade Forex System

The Forex Profit System is specifically designed for use with the 1, 5 or 10 minute charts, with the goal of taking 5-20 pip profits per trade—closing bad trades out using tight stops, or hedging any losing trades. The following steps will show you how to do this.

## Set up your charts:

On the left hand side of screen you will be able to choose your chart. Choose EUR/USD (or whatever currency pair you like), 5 min, line and the chart will appear on the right hand side. Maximize the chart to fill the right hand side. Now if you want to make the price line darker, you can right click right on the price line and a properties box will appear. You can adjust the thickness of the line.

Now we will add the Moving Averages to the chart. We will be using the Exponential Moving Average 10, the Bollinger Band Exponential Set at 20, and the Exponential Moving Average 50.

Click on **Moving Average** on the left hand side under Studies. Set your first MA to **10**, close, exponential and you can make it **red** with line width 2 under the Color/Style Tab.

Click on **Moving Average** again and add your MA **50**, close, exponential and make this line **blue** with line width 2.

Now we will add **3** more indicators below the chart to help us **confirm** the trend, and to help us identify exact entry and exit buy or sell signals. The following indicators give us insight into the momentum, direction and overbought/sold indicators. Used along with the Exponential Moving Averages, Parabolic SAR and Bollinger Bands—these indicators can be very helpful to the day trader.

### MACD Histogram.

Read about how to trade the MACD Histogram here: [http://www.incrediblecharts.com/technical/macd\\_histogram.htm](http://www.incrediblecharts.com/technical/macd_histogram.htm)

### Relative Strength Index (RSI)

Read about how to trade the RSI here: [http://www.incrediblecharts.com/technical/relative\\_strength\\_index.htm](http://www.incrediblecharts.com/technical/relative_strength_index.htm)

### Slow Stochastic

Read about how to trade the Slow Stochastic here: [http://www.incrediblecharts.com/technical/slow\\_stochastic.htm](http://www.incrediblecharts.com/technical/slow_stochastic.htm)

Now add these studies to your charts.

Under Studies click on **MACD Histogram** and use the default settings (9, Exponential, 12, 26, Close, Exponential) and set the line width to 2. Your study will automatically open under your chart.

Under Studies click on **Relative Strength Index** and set it to 14 and set the line width to 2. Your study will automatically open under your chart.

Under Studies click on **Slow Stochastic** and set it to (5,3,3, Exponential) and make the %K line blue with line width 2, and the %D line red with line width 2.

Your chart, with all the studies on it should now look like this (example of USD/CAD 10 min chart): I clicked on the zoom in button a couple of times.

**\*\*tip:** If you are in a winning trade, you can move your stop to your entry level, so that if your trade moves against you, the platform closes your position without any losses.

**\*\*tip:** You should be comfortable setting your stop Order at 15-20 pips. If you can't handle a 15-20 pip loss, then you are need to trade smaller amounts. This will help you from over leveraging your trading account.

**Limit Order:** Is a price you enter into an open position for the trading platform to automatically close your position at a profit.

For example, you might set your limit order at a 15 pip profit. If the exchange rate never hits that level, then the Order doesn't get filled.

### **When to Enter and Exit Your Trades:**

We will be looking at 3 different ways to day trade the Forex Markets. In a trading session, you may look for 1 or more of these approaches. The 3 techniques are as follows:

1. Trade the Breakout
2. Trade the Trend
3. Trading Tops and Bottoms
4. Micro Trading

Before we look at these trading approaches, let's answer a question that is often asked by new traders.

### **When is the best time to trade?**

Because the Forex Market is open 24hrs a day, and traded on a global scale, the question to ask is, 'when should I trade?'. The good news is that no matter what time zone or hemisphere you live in globally, there are always good opportunities to trade.

The three major trading 'sessions' are as follows (all in Eastern Standard Time):

1. New York open 8:00 AM to 4:00 PM
2. Japanese/Australian open 7:00 PM to 3:00 AM
3. London open 3:00 AM to 8:00 AM

**\*\*Often, the best times to trade is at the beginning 3-5 hours of the above mentioned opening times, because the major currency pairs tend to move the most in a particular direction.**

The first DayTradeForex.com trading technique we will look at is the easiest to recognize on the charts. We will call it 'Trade the Breakout'. You can use the 5, 10 or 15 minute charts for this method. The indicators on the 5 minute charts are the fastest. Practice until you feel comfortable with the time frame that suits you best.

#### **1. Trade the Breakout**

The principle behind trading the breakout is to enter a trade when the price 'breaks out' of a tight range, because often it tends to keep moving in the same direction. We use our Bollinger Bands on our charts to spot this trading opportunity.

The second DayTradeForex.com trading technique uses the same principles, but is less extreme. This trading method is best traded on the 5 or 10 min charts, but can be applied to the 1 minute charts (See the Bonus "**Micro Trading**" strategy at the end of this trading course)

#### **2. Trade the Trend**

Trading the trend is just like trading the breakout, except in less volatile market conditions. Start with going to the 15 minute chart of the currency pair of your choice and ask yourself this question: 'Is the exchange rate line (brown) above or below the EMA 50 (blue)?'

**\*\*If the price line is currently below the EMA 50, and the EMA 10 and BB 20 are also below the EMA 50, then you will be looking at Selling opportunities in the trading session.**

If the price line is currently **above** the EMA 50, and the EMA 10 and BB 20 are **above** the EMA 50, then you will be looking at **buying** opportunities in the trading session.

Often, when you are 'trading the trend', you will notice that the price line will bounce off the EMA 10 or the middle BB line or the EMA 50. These lines sometimes act as supports and resistances in a trading session. Therefore you can look to **sell shorts** when the price line bounces **down** off the EMA 10, BB 20 or EMA 50, or **buy longs** when the price line bounces **up** off the EMA 10 BB 20 or EMA 50.

When you trade the trend, it is important to trade with the Parabolic SAR, MACD, RSI and Slow Stochastic all signaling together.

# “Micro Trading” the 1 minute Charts System

This technique is for traders who like getting in and out of trades in a matter of minutes instead of hours.

The type of chart set up that we use to trade the 1 minute charts is candlestick charts.

## SET UP YOUR CHARTS

1. Open a new EUR/USD **1 minute candlestick** chart.
2. Add Bollinger Bands set at 18, Exponential. Change the color of the middle band to bright **green**.
3. Add a moving average 3 Exponential, Close and change the color to **black**.
4. Add the **MACD Histogram** Study (default settings)
5. Add the **Relative Strength Index** Study set at 14.
6. Zoom in or out to your liking.

## The Key to catching the “Micro Trends” on the 1 minute charts:

- Wait for the **3 EMA (black)** to cross through the **18 Bollinger Bands Middle line (green)**.
- Wait for the **Relative Strength Index** and **MACD Histogram** to line up: *Above 0* (MACD) and *above 50* (RSI) for **BUY** signal. *Below 0* (MACD) and *below 50* (RSI) for **SELL** signal.
- Remember to **take small profits**.
- **Practice** this strategy on your demo account.

## TRADE THE NEWS

Here is a great example of how you can use the 1 minute charts to trade the economic news releases. To find out when the world economic news releases are, simply go to <http://www.forexnews.com> and scroll down to the bottom of the website for the list of the current week news releases that impact the Forex markets. In the above example, the economic news release was scheduled for 8:30 AM EST. **At 8:33 the price jumped up 20 pips.** Using our 1 minute strategy along with the news, is an effective way of scalping profits on the FX markets.

**\*\*Tip:** Remember to wait a minute or two after the announcement. Don't open a position before the scheduled time!

**\*\*Tip:** There are news releases all throughout the week during the different time zones and trading sessions. This technique works well during overnight trading EST during the European and London sessions.

## ATTENTION:

Using the 1 minute charts is **fast moving**. It might not be your style of trading. If you want to test out slower moving average combinations that whipsaw less often on the 1 minute charts, you can try these:

1. 7 EMA, 18 Middle Bollinger Band
2. 5 EMA, 20 Middle Bollinger Band
3. 10 EMA, 20 Middle Bollinger Band

# Tom Demark FX system

It is easy, simple but awesome in power. It works with all pairs (major and others) which means you have an entry most of the time. I thought of calling it “The honey moon strategy”, but honey moon must end sooner or later. The magic of this strategy never fades. Originally called “The broken trend”, which sounds too technical. Now let us get to business and revel in the magic:

## Set up:

- 1- EMA 9, EMA 30, Momentum indicator (draw a horizontal line at the 100 point).
- 2- The hourly chart.
- 3- Draw a Tom Demark trend line (connecting at least 3 swing high (or low). And should avoid steep angles

## Entry:

Enter buy when the 9 EMA crosses up the 30 EMA and the momentum line is above 100. And price breaks the down trend line. (The trend line is our invaluable filter so make sure you do a lot of practice with it). Entry should be placed at the opening of the new hourly candle after the cross (to make sure the crossing and trend break are real and to keep away from whipsaw).

Enter sell when the 9 EMA crosses down the 30 EMA and the momentum line is below 100. And price breaks the trend line, at the new hourly candle after the EMA crossing.

The EMA crossing can occur before or after the trend line break.

Stop: 40 pips (it has to be respected).

Target: from 40 pips up to 150 pips (depending on pair volatility and current situation).

Move your stop in the direction of trade in steps of 10 pips. When market reaches 75% of its daily range tighten your stop. When you see signs of reversal close order at market price. When you do not see any signs of reversal get rid of your limit and follow the price very closely with your trailing stop.

## Demistifying Tom DeMark Trend Lines

My simple interpretation of what the article says regarding TD Lines (Tom DeMark Lines) is as follows:

### TD Points

To draw TD Lines one first must identify TD Points (Tom DeMark Points). In all cases, the bar to the right of the TD Point being tested must be complete.

A TD Low Point (Tom DeMark Low Point) is a low bar which has a bar with a higher low immediately before and after it. Therefore, when the bar before and/or after the low bar you are testing (to see if it qualifies as a TD Low Point) has the same low (double or triple bottom), the point does not qualify as a TD Low Point.

A TD High Point (Tom DeMark High Point) is a high bar which has a bar with a lower high immediately before and after it. Therefore, when the bar before and/or after the high bar you are testing (to see if it qualifies as a TD High Point) has the same high (double or triple top), the point does not qualify as a TD High Point.

### TD Lines

To draw the current lower TD Line (called the TD Demand Line), connect the the next most recent TD Low Point that is lower than most recent TD Low Point, to the most recent TD Low Point, then extend the line to the right.

The lower TD Line must slope upward. To draw the current upper TD Line (called the TD Supply Line), connect the next most recent TD High Point that is higher than most recent TD High Point, to the most recent TD High Point, then extend it to the right. The upper TD Line must slope downward.

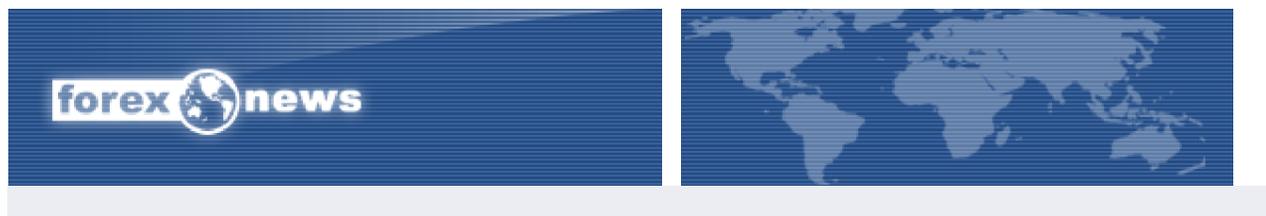
# The Forex News Trading System

**Step 1:** Go to [ForexNews.com](http://ForexNews.com) and scroll down to the bottom of the page to find out what Forex News releases are coming out. Then, click on **Complete Calendar for Current Week** link.

**Step 2:** Now, look at the Calendar for News releases that affect the Forex market. The ones particularly to look for are the following news announcements:

1. Unemployment Reports (Non-Farm Payroll)
2. Interest Rates
3. Consumer Price Index (CPI)
4. Inflation Reports
5. Gross Domestic Product (GDP)
6. M2 (Money Supply)
7. Treasury Budget
8. Producer Price Index (PPI)
9. Retail Sales
10. International Trade

Unemployment Reports are released on the first Friday of every month at 8:30 am EST for the prior month (this is a big one you should always attempt to trade!), and every Thursday at 8:30 am EST they release a weekly adjustment (less important but still a good possibility). CPIs are released 8:30 am EST around the 13th of each month for the prior month. International Trade is released 8:30 am EST around the 20th of the month (data is for two months prior). PPI released around 11th of each month at 8:30 am EST for the prior month. Treasury Budget released 14:00 EST around the 3rd week of the month for the prior month. GDP released 3rd or 4th week of the month at 8:30 am EST for the prior quarter, with subsequent revisions released in the 2nd and 3rd months of the quarter. M2 released Thursdays at 16:30 EST data for the week ended two Mondays prior. NAPM (National Association of Purchasing Managers) released 10:00 am EST on the first business day of the month for the prior month. Retail Sales released 8:30 am EST around the 13th of the month for one- month prior.



## Events for week of 1/25/2006

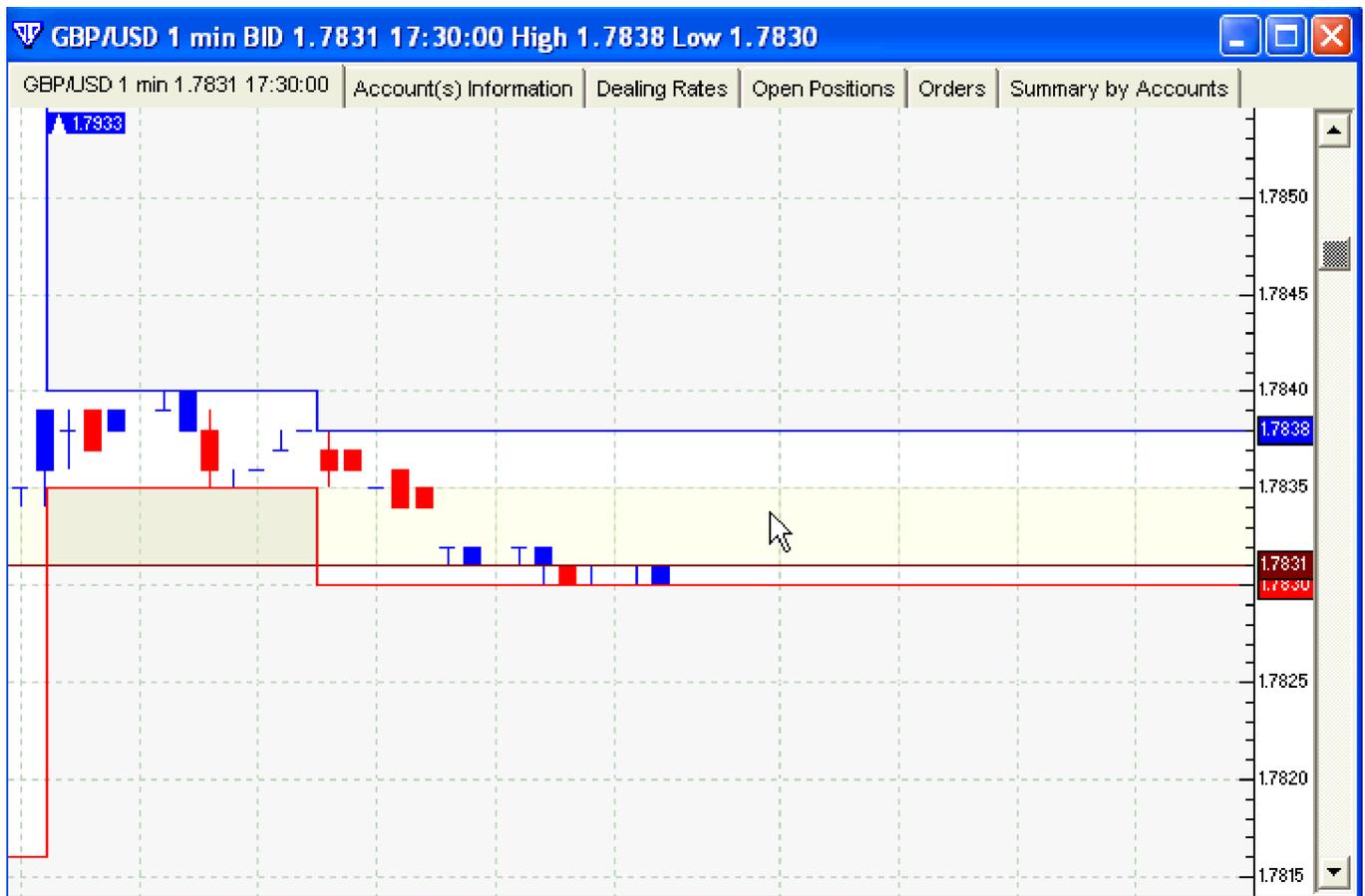
Time (NYT)	Location	Description	Forecast	Previous	Actual
2006.01.23 06:00	UK	Jan CBI Trends	-- --	-- --	
2006.01.23 10:00	US	Dec Leading Indicators	0.1%	0.5%	<b>0.1%</b>
2006.01.25 04:00	GER	Jan IFO Business Expectations Survey	99.8	99.6	<b>103.6</b>
2006.01.25 04:00	GER	Jan IFO Business Current Conditions	99.8	99.6	<b>100.4</b>
2006.01.25 04:00	GER	Jan IFO Business Climate Survey	99.8	99.6	<b>102.0</b>
2006.01.25 04:30	UK	Q4 GDP	0.5%	0.4%	<b>0.6%</b>
2006.01.25 10:00	US	Dec Existing Home Sales	6.90 mln	6.97 mln	<b>6.60 mln</b>
2006.01.26 08:30	US	Weekly Jobless Claims	295K	271K	
2006.01.26 08:30	US	Dec Durable Goods Orders	1.0%	4.4%	
2006.01.27 04:00	E-12	Dec M3 Money Supply Growth y/y	7.5%	7.6%	
2006.01.27 08:30	US	Q4 GDP - advanced	2.8%	4.1%	
2006.01.27 10:00	US	Dec New Home Sales	1.230 mln	1.245 mln	

**Step 3:** Only Trade the following currency pairs as they appear at this time to move more than the others: EUR/USD, GBP/USD, USD/CHF. Do not attempt with real money (just demo) to trade other currency types with this strategy. Notice the above information. I removed all nations that this system does not work with.

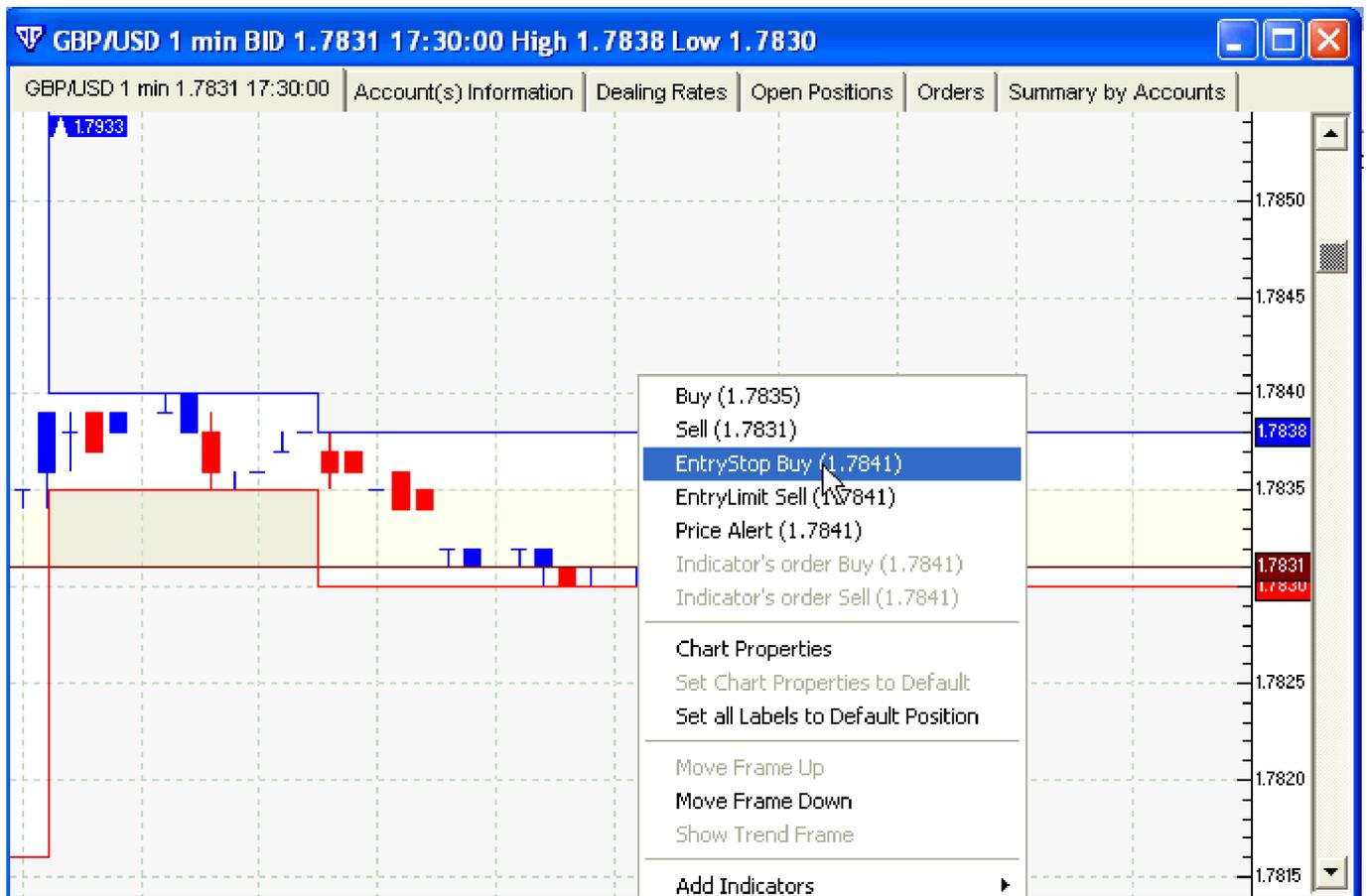
Now that you know at what time you need to be at your computer ready to make the trade, we need to get ready 5-10 minutes before the announcement to trade.



**Step 4:** Watch how I setup my chart for a news release. In VT Trader platform. Make sure you are setup to the 1 minute chart on the currency pair you are planning to trade.



**Step 5:** As you can see above, the current price is 1.7831.



**Step 6:** Right Click on the chart about 10-15 pips above the current price and click EntryStop Buy. You are requesting to buy when the currency hits your price.

**EntryStop** ✖

You're buying GBP / selling USD

Rate:  > 1.7839

Amount:

Trader's Range:

Duration:

Hedge

	Acct ID	Amount
Account	✓ 562718	1.0

Total Amount: 1.0/100000.00 GBP

Set stop

Rate:  < 1.7832

pip P/L:

currency P/L:  USD

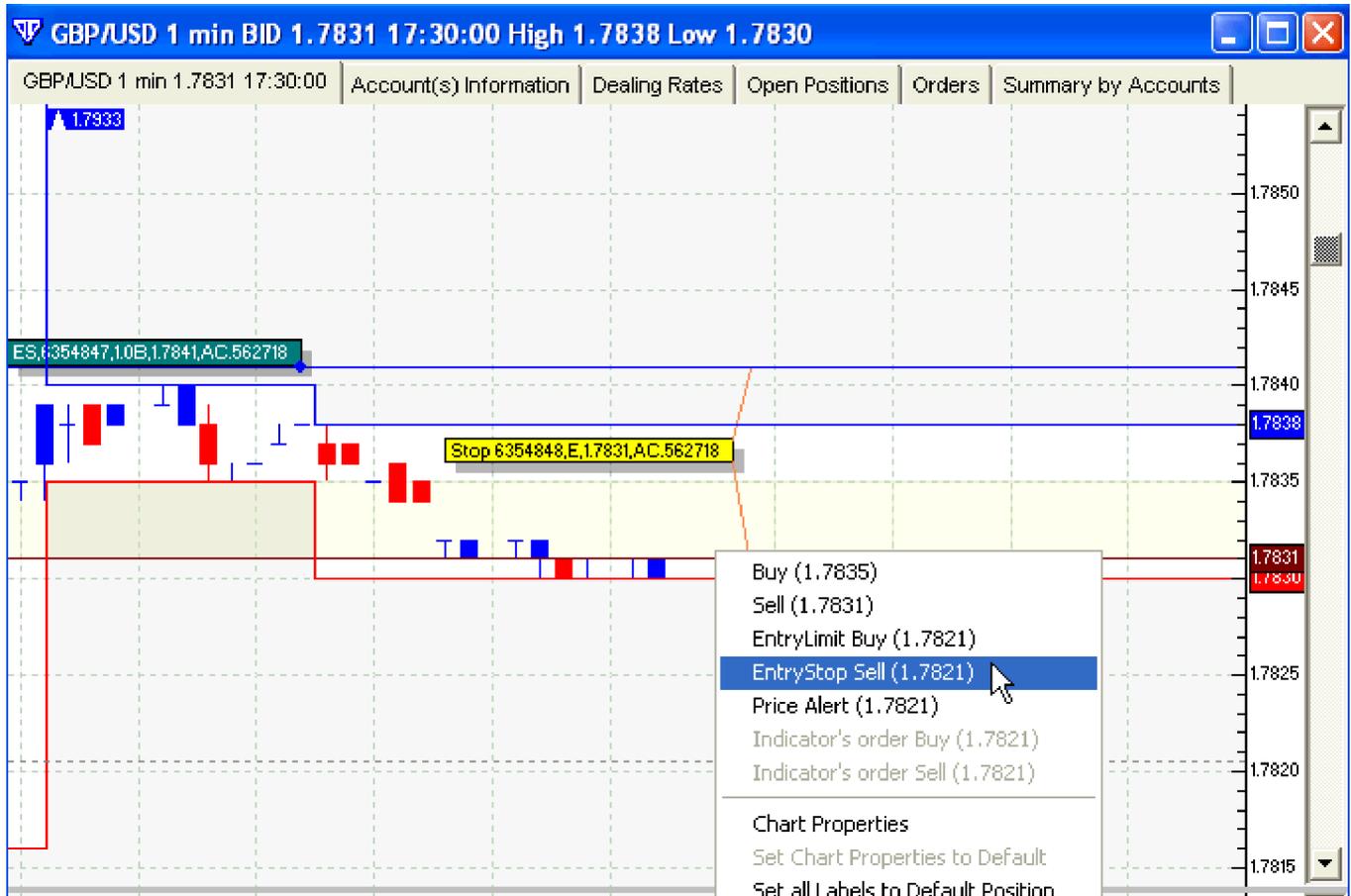
Set limit

**Step 7:** Enter the amount of contracts you want to trade (in this example it is 1) and enter a Stoploss for 10 pips. Press OK.

**Request for Confirmation** ✖

 You're placing Stop Entry order to buy 100000 GBP / sell 178410.00 USD at 1.7841 on account(s) 562718

**Step 8:** Click OK again to confirm.



**Step 9:** Now, do the same thing below the current price, except add in a EntryStop Sell 10-15 pips below the current price.

**EntryStop** ✖

You're selling GBP / buying USD

Rate:  < 1.7827

Amount:

Trader's Range:

Duration:

Hedge

	Acct ID	Amount
Account	✓ 562718	1.0

Total Amount: 1.0/100000.00 GBP

Set stop

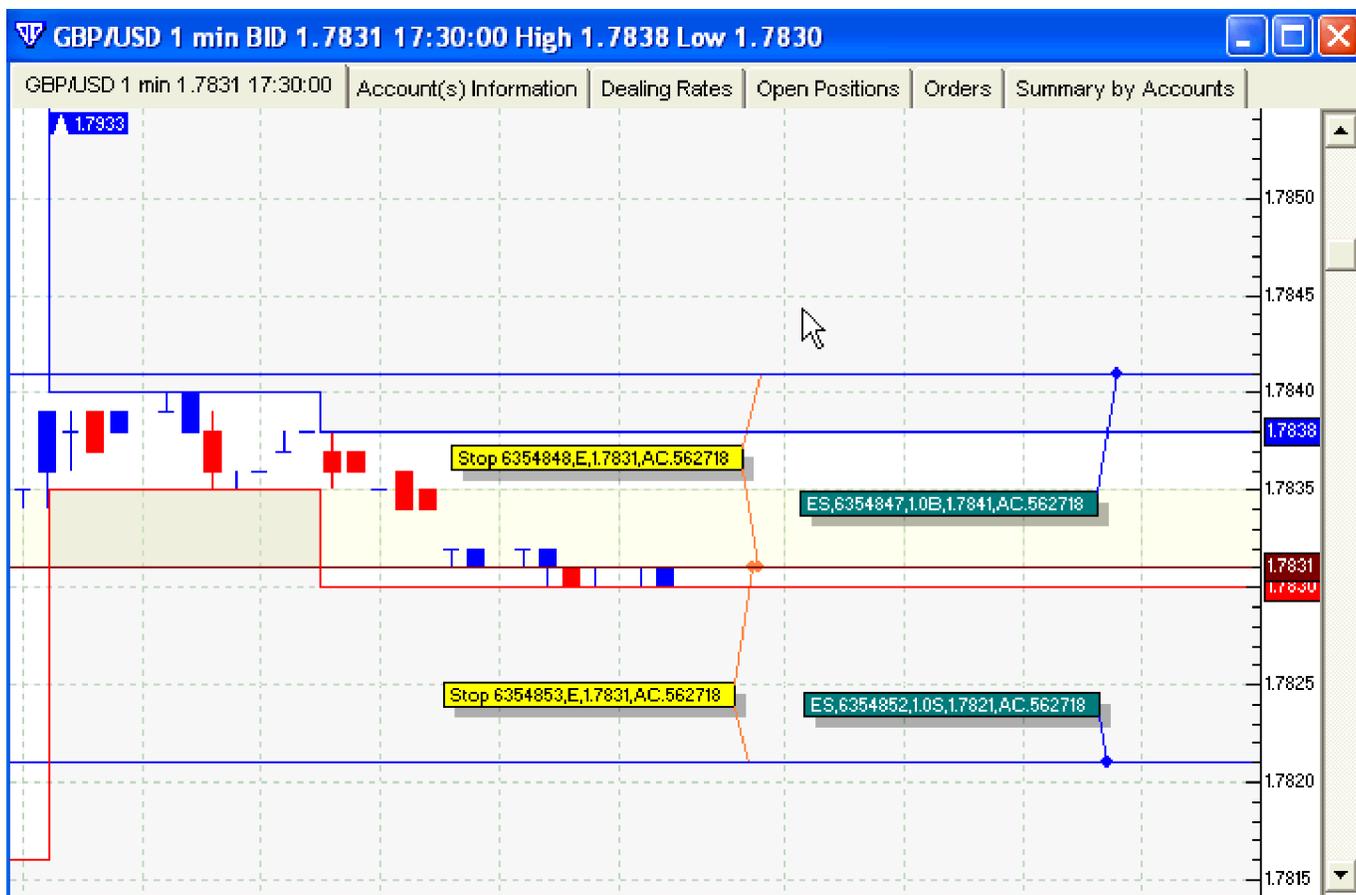
Rate:  > 1.7830

pip P/L:

currency P/L:  USD

Set limit

**Step 10:** Enter the amount of contracts you want to trade (in this example it is 1) and enter a Stoploss for 10 pips. Press OK



**Step 11:** What did you just do? You took the price range of the currency pair and stretched it 10 pips up and down to add a little bit of a safety net. You told the broker that if the price of the currency pair goes up to that high point then you will “BUY”, and if it goes down to the low point then you will “SELL”. You also told the broker to stop you out after losing ten pips incase of whiplash if that should happen.

If the price happened to go “UP”, and you would have ended up “BUYING” the currency pair. It could just as well gone “DOWN”, and you would have ended up “SELLING” the currency pair. It doesn’t really matter with this strategy which way it goes, just that it moves a lot of pips.

You could also, set the optional profit limit to 20 pips. So basically, you don’t have to know if the news is going to be good or bad. All you do is wait until one or the other is executed on news. Once one or the other is executed, you simply cancel the other order and then wait and take a profit when you think is best (20-30 pips is usually about average). However, don’t wait to long because the price could drop very quickly after the initial run.

### MORE ABOUT THE STRATEGY

Why use a 10 pip stop loss? If you are wondering at all about that question then you must be a beginner at trading Forex. Any Forex trader knows to NEVER trade without protective stop losses. If you trade without stops then your first mistake will be your last because you might not have any funds left in your account. A stop is there to protect you from losses, but it is also there to help you make money.

If you trade to gain 20 pips while risking only 10 that means you are trading with a 2:1 risk ratio. It’s like you and I are playing a game where I flip a regular coin many times, and our bet is that if it lands on heads I’ll give you \$20, but if it lands on tails you give me \$10. You would be foolish not to join me in this bet, as you should come out ahead (though with the Amazing Forex System your odds are better than a 50/50 coin toss).

Another reason to use a stop is that it could go wrong. It does happen sometimes and you need to be prepared. The price could go one way just far enough to trigger your order then turn around and skyrocket the other way (whiplash). How would you feel

losing 30 or more pips in just a couple of minutes? Not fun. It does happen that you get triggered the wrong way. Oh well, you lost 10 pips, usually you make it back when it triggers the other entry order and keeps going that way, or you can make it up in the next trading opportunity. Losses are a part a trader's life; the trick is to limit your losses and let your gains run, not the other way around.

One amazing thing about this strategy is that you are only risking 10 pips in your trade. Most traders usually have stops of 20 to 100 pips, and so would consider a 10 pip stop a very safe trade.

On another note, in the above trading strategy I was assuming that your Forex broker is giving you a 3-5 pip spread. This is because you could get triggered into the trade too soon, and possibly for the wrong direction if the high/low of the 8:30am candle were to go 3 or 4 pips higher/lower than the previous.

■ GBP/USD(1 min. 12 hr.)



## WHIPLASH

Take a look at the above chart. This is the one-minute candlestick charts of the GBP/USD on June 15, 2004. Here you will notice that at announcement time it dipped down strongly (for about 20 seconds) before turning around the other way. Sometimes

the markets react in a “whiplash” fashion for a moment because individual investors seeing the news react unpredictably. This happens sometimes, and unfortunately it triggers one entry order and promptly results in a 10 pip loss (remember NEVER trade without stops – and sometimes when a large whiplash happens you can even profit from it if you had set your limits). Then it triggers the other entry order and keeps on going (usually). At this point you wait for your profits to be in excess of 20 pips and you immediately change your stop order to secure a 10 pip profit which counters the 10 pip loss. If anything bad should happen at this point you would exit the trade with a zero win/loss, which is better than walking away with a 20 pip loss.

## **DUDS**

What’s a “dud”? It is those times when nothing seems to happen. Sometimes you don’t see the explosive price changes you hoped to see. Realistically, most of your attempts will result in a dud, but the winning times more than pay for your wasted time.

Maybe you picked a wrong time, or the News releases were not really of any importance. Anyhow you should know if the trading session is a dud if nothing significant happens within three minutes of the anticipated Announcement. This is part of the reason why you increase the highs/lows by 10 pips, so you can usually get out before you get into a trade. At this point close any pending entry orders. If one of your entry orders have been triggered then “oh well”, it’s like a coin toss – it may or may not go in your favor – just set the limit for 20 pips and see what happens. You could end up with a 10 pip loss or a 20 pip gain. As soon as you are in profit of 6 or more pips then immediately replace your stop at the entry price, this way if it goes back down the trade results in a zero loss (or you could exit the trade manually to take the small profit – your choice). Cross your fingers and hope it results in a profit, but at least you shouldn’t lose. If you are going to experience losses with this system then this is where it will happen (unless you foolishly forget to strategically trail your stops on winning trades as explained in this eBook).

Plan now for the next trading opportunity. Please remember that not every time will you experience those price explosions, but they do typically happen several times a week, and when you catch some of them you’ll profit handsomely.

## **ADDING MORE “SAFETY”**

What I often do, and recommend you consider as well is to pad your pip ranges a little more. Often what I’ll do is I add/subtract 15 pips rather than just 10, or I will add 10 pips to the highs/lows over the past 8 minutes, especially when there has been some larger price movements. Widening your range lowers your risk of having your trade entry triggered if it ends up being a dud. Yes, doing this will cut a bit out of potential profits (usually an extra 5 to 10 pips), but it dramatically lowers your potential for losses. Remember, it’s better to make a little less on your profits as it will be far compensated for the savings of losses.

## **THE “BIGGER CHANCE” APPROACH**

After having some experience with 20 pip limits and feel quite comfortable doing this then try a 30 pip limit or even 35. Remember, the farther your limits the greater the risk that it might not work out, however 30 pips is still relatively safe.

## **THE “GONE SURFING” APPROACH**

If you have some time available in front of your computer then don’t use a limit, go for even more pips. As soon as your trade has been activated and moves up at least 10 pips then immediately replace your stop to be at your entry price, and cancel the other pending entry order. After this the worst case scenario would be a zero gain/loss. After the price has gone 30 pips above your opening price then replace your stop up 20 pips. After this the worst case scenario would be that you gained 20 pips, you can’t lose! All this should have already happened within 15 minutes after the Fundamental Announcement time. You now have two choices:

**Choice 1** – Baby Sitting - Continue trailing your stops following your profits by 15 pips (or 10 pips before the pull-backs – this is the better way) and see how far it goes before you get stopped out. You could easily get 35 to 100 pips this way in one good trading session. Be sure to get out before end of market overlap closing time (what is “market overlap”? See below).

**Choice 2** – Sailing On - If you are somewhat more of an experienced trader and see that the price is moving in the direction of the trend (according to any of your technical assessments – i.e. acting as an extension of a large Fibonacci swing) then you may want to simply leave your stop for a 20 pip gain (so in the worst case scenario you at least made 20 pips) and let it ride for a couple of days (or limit where you forecast a reversal – i.e. near the end of a Fibonacci extension or close to a trend line bounce level). You could gain 100, 200, 300 or possibly more pips. Use protective stops to secure your profit at lows/highs (trailing stops).

## **Market Overlap**

Because the world is round, different places around the world experience different times. Half way around the world from somewhere where it is daytime is nighttime. This is obvious. Now there are three major markets that trade Forex, the North American market, the European market, and the Asian market (including Australia & New Zealand). The Asian market trades between 8pm and 4am EST (convert these times to your own time zone), the European market trades between 2am and 12pm

EST, and the North American Market from 8am to 5pm EST. You will notice that there are two times when two of the major markets overlap in trading times; between 2am and 4am EST (Asian/European) and between 8am to 12pm EST (European/N. American). Generally speaking, those are the best times to trade, and all other times simply close your computer. Most significant price moves happen only during these times, and outside of these times the markets mostly “consolidate”, meaning very little price action happens, just some narrow bouncing sideways movement, and it’s usually a big waste of time trading then.

**CLOSE ALL ON FRIDAYS – DANGER! DANGER!** This point is huge. Never, and I mean NEVER leave a trade open through the weekend. During the weekend the markets are closed, but world events still happen that affect the price of a currency pair. When the markets reopen on Monday morning (Asian times), Sunday evening in North America, the price usually gaps meaning your stops could be completely missed resulting in huge losses. So never ever ever leave a trade open through a weekend. If you have any open trades simply close them manually around noon or 1pm (EST) on Friday. Yes, following this advice may result in lost profit opportunities, but it far more than compensates for lost money in your account if you are on the wrong side of a big move.

### **FINAL COMMENTS**

I thought I should include the comment that I realize that this strategy goes contrary to what professional traders recommend. The usual practice is to avoid trading just before Fundamental Announcements as they throw off technical analysis temporarily and you are encouraged to avoid such volatility, and practice good technical trading. I would normally agree with that sound advice, however this strategy is designed to capitalize on that volatility. It doesn’t matter which way it goes, up or down, with or against technical analysis, for you to profit from it. If it moves against what the technicals are saying then it often corrects itself shortly, long enough after you’ve made a profit. Remember, do your technical analysis and if the price jump agrees with your analysis then that could be an excellent way to enter the market with less risk than entering in another way with a 60 pip stop. In other words if it goes against the trend/expectations then take your profits and run, but if it goes with the expected direction then move your stop to prevent any loss, and even to secure some profit then let it ride.

I often look back and use the highest highs & lowest lows from earlier candles (3 and 4 minutes before announcement time—sometimes even a few more) if they seem to be jumping wildly. Sometimes if I feel a bit uncertain I might even pad my spread by 15 pips rather than 10 (keeping 10 pips as stop though). This usually leads to less whiplash and lowers the risk of getting entered into a trade if it results in a dud. Remember, it is a dud if by 3 minutes after announcement time if prices haven’t jumped and immediately cancel your orders.

You could work this system for virtually every Forex News Announcement, however you would be wasting your time for the most part. The highest likelihood of getting the jump you are looking for is when there are multiple (two or more) announcements from the same country at the same time, however a jump can occur even from a single announcement (and if the news seems like an important one, then you may want to try it). Also notice when there are announcements happening at the same time from two different countries (i.e. US and Canada) then trade their currencies (i.e. USD/CAD). Bottom line is that there aren’t any scientific strict rules to follow, it is more subjective, and a bit of luck helps too. Pick what appears to be the five or six best opportunities from the announcements calendar for the week and just focus on those. Don’t waste your time trading every announcement. Some weeks will be better than others. Remember, with a little practice you’ll get a feel for what to look for.

Spend a little time researching on the web about important Forex News to understand what they are, and to gain a better sense of what kinds of news should have a higher likelihood of causing the sought after price explosions. Remember, successful traders will do what unsuccessful traders won’t do. So gain an edge by educating yourself a little about this subject.

I have found that 8:30am EST so regularly has price explosions that I’ve set it a standard trading time to attempt every trading day that has some sort of announcement at that time (as this is the time that the US usually releases important announcements, and because it is so close to the beginning of the European/N.American market overlap). It consistently creates price explosions to trade using this system, I’d say a guesstimate average of 2 or 3 times a week. If you were to do nothing more than trade this time each weekday, working only one hour per week (actually only 50 minutes if you spent only 10 minutes a day doing this), then this alone could result in full time income for you (depending on how many lots you trade and how many pips you actually get – i.e. if you got 60 pips from 3 trades with a limit of 20 pips trading two lots would be \$1200, but if you successfully baby sit your trade for a while it could be even more! If you have a larger margin account then you could trade to earn even more, just multiply the numbers by how many lots you can safely afford. The best currency pairs are EUR/USD & GBP/USD, and a secondary choice would be USD/CAD & USD/CHF (if there is a specific reason such as a CAD announcement at same time, but generally stick with EUR or GBP).

# The CI System

Set up your charts:

Add a red 5 ema line (5 period exponential moving average)  
Moving Average, type in 5, choose exponential and apply to close.  
Repeat the steps for a 13 ema line (blue)  
Add 15, 3, 3 Stochastic Oscillator (close) on the 15 min chart  
Add 15, 3, 3 or (8, 3, 3) Stochastic Oscillator (close) on the 60 min chart

Before you commence trading, draw in these lines

- Horizontal and diagonal trendlines through important recent highs and lows on the one hour chart
- Use the Fibonacci drawing tool to draw in important horizontal Fibonacci lines. Select the Fibonacci drawing tool. (see Fibonacci section above).

## Determine the Trend

The trendlines and chart patterns on the 1 hour chart will quickly show you the main trend direction for day trading. Trade in the direction of the 1 hour trend. Additional clues may be found on 4 hour and daily charts by looking at Japanese Candlestick patterns and the direction of the market..

## FOR BUYS

Primarily, look for an entry signal on the 15minute chart .If you don't see an entry pattern there, you may be able to see one on the 30minute chart

## Find the entry

Intra day traders look for a bullish engulfing candle on the 15 minute chart. (An engulfing candle is where the body of the latest candlestick engulfs the body of the previous candlestick.) Poetic engulfing candlesticks are fine too as the open of the latest bar should equal the close of the previous bar but may differ slightly on our charts. Alternatively, you can enter a trade at a morning star .You can enter as soon as the bullish engulfing candle pattern or morning star pattern looks like it will stay there until the 15minute candlestick closes or you can wait a bit longer for confirmation from the 15, 3, 3 Stochastic indicator. Buy when the %K line crosses above the % D line. Check the 30minute chart for an entry pattern if there isn't one on the 15minute chart.

## Euro 15 minute

Two CI System entry point are shown in the chart. Both involve Bullish Engulfing bars and 15, 3, 3 Stochastic crosses

A second chance but slightly worse entry comes a bit later if you hesitated at the first entry signal. This is a 15minute bullish candlestick with confirming stochastic signal followed by the red 5ema line crossing above the blue 13ema line on another chart or the 5minute chart. Do not try to trade 5minute candlestick patterns. The 5minute chart is only for exponential moving average crosses and isn't essential for use if you trade the 15minute or 30minute Candlestick patterns in a timely manner.

## **Euro 5 Minute**

This chart is for the same trade as shown in the 15 minute chart above. The 5/13 ema crosses are indicated by the red ovals. The vertical green lines mark the time of the Bullish Engulfing as seen on the 15 minute chart above

3. Longer term swing traders can find good CI entries on a 60 minute chart. It is possible to enter before the 60 minute candle has closed. Sometimes waiting until the candle has closed would not be appropriate because price has moved too far way from your stop loss point and it would not be worth risking that many pips.

## **Euro 60 minutes**

Two examples of Bullish Engulfing Candles for

—Buys—. —In the first example, the trade would be best placed before the hour period is complete and at the point of engulfing

## **Stop Loss**

1. On a 15minute chart, a stop loss may be placed 10 pips below the low in a 3 bar turning point. The optimum position for the stop is 10 points below the low at —1“.

### **EURUSD 15 min**

Try to target at least 1.5 times your stop loss when possible. Exit at one of the following points. Double top, trendline bounce, 161.8% Fibonacci extension 200% extension. Sometimes price will reverse 5 or 10pips before reaching these targets. 38.2%, 50%, 61.8% and 76.4 % retracements of a previous significant move can also be exits.

### **FOR SELLS (SELLS ARE THE REVERSE OF BUYS)**

#### **Entry**

1. Look for a bearish engulfing candlestick on the 15 minute chart. (An engulfing candle is where the body of the latest candlestick engulfs the body of the body of the previous candlestick.) Poetic licence engulfing candlesticks are fine too as the open of the latest bar should equal the close of the previous bar but may differ slightly on our charts. Alternatively, you can enter at an evening star. You can enter as soon as the bearish engulfing candle pattern or evening star pattern looks like it will stay there until the 15minute candlestick closes or you can wait a bit longer for confirmation from the 15, 3, 3 Stochastic indicator. (Sell when the %K line crosses below the % D line.)check the 30minute chart if you can't see an entry pattern on the 15minute chart.

2. Longer term swing traders can also find good CI entries on a 60 minute chart. It is possible to enter before the 30 minute or 60 minute candle has closed. Sometimes waiting until the candle has closed would not be appropriate because price has moved too far way from your stop loss point and it would not be worth risking that many pips.

#### **Stop Loss**

1) On a 15 minute chart, place a stop loss 15 pips above a 3 bar pivot. The optimum position for the stop is 15 points above the high at point —1“ where the entry is as a result of the lower high, bear engulfing and stochastics cross.

### **GBPUSD 15 min**

#### **Exit**

Try to target at least 1.5 times your stop loss when possible. Exit at one of the following points.

Double bottom, trendline, 161.8% Fibonacci extension, 200% Fibonacci extension. Sometimes price will reverse 5-10pips before reaching one of these points.

38.2%, 50%, 61.8% or 76.4% retracements of previous significant moves can also be exits.

#### **Notes:**

Supplementary trades apart from CI trades may be taken using other candlestick patterns, 3rd touch of trendlines, 1234 (ABCD) trades, double tops, double bottoms, higher lows on 1 hour charts, lower highs on 1 hour charts, triangle breakouts, wedge breakouts, etc. This deviates from the system and is an option for the more experienced traders who use their own judgment and experience.

### **Putting It All Together**

Do not prejudge the market by saying the market is quiet and won't do much. Wait for the trades to come to you. Look at other candle patterns as well and enter trades. If you can trade with patience and discipline (sticking to the rules), you are well on the way to success.

To gain confidence with live trading and your system, it is mandatory that you paper trade or trade on a demo first before you risk your money. Back test to see the high percentage of winning trades. When you see the method working successfully over and over, you will gain the necessary confidence. By using multi-time frame analysis, a trader can find frequent entry setups. See it, believe it and trade it. Don't say —it can't go lower“ or —it can't go higher“.

Keep monitoring the 15 minute, 30minute, 1 hour and 4 hour charts to see what is going on. This gives a good road map of what is happening in the market. If you can't see something with those, then there's really nothing going on and is best to sit on the sideline waiting. Keep drawing Fibonacci lines and trend lines.

When a currency pair is moving strongly, there will not be any engulfing candles against the trend but there will be a minor retracement. If there is an engulfing candle, there is a high probability that price will retrace to at least 61.8%. After a retracement, wait for an engulfing candle to re-enter the trade. Keep looking for a new point 3 entry point as explained in the Retracement System above.

If you wish, you can use the free charts from [www.metaquotes.net](http://www.metaquotes.net) or [www.interbankfx.com](http://www.interbankfx.com) or [www.fxdd.com](http://www.fxdd.com). Download the free chart program and then sign up for a free demo. When the 1 month demo expires, the charts will stop updating. When this happens all you need do is re-apply for a new demo account. These charts are good for switching from one timeframe to another with one mouse click.

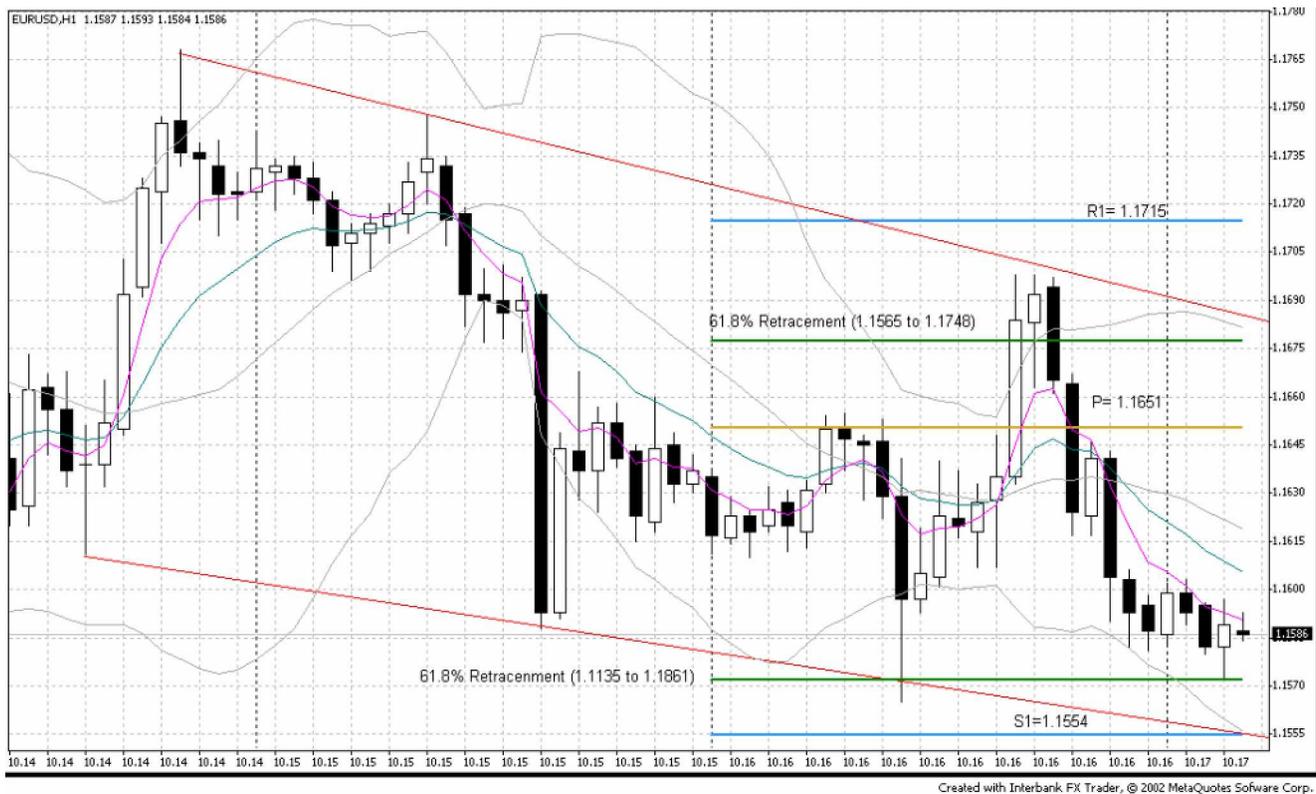
Charts from other sources on the internet are suitable if they have 5minute, 15minute, 1hour and daily charts available.

**Key to time frames on the charts:**

M5- 5 minute; M15- 15 minute; M30- 30 minute; H1- 1 hour ; H4- 4 hour.

The methodology we use in the CI System is powerful compared to other mechanical strategies as we look at many factors and the more we get, the more powerful the resultant move is.

Each time the EURUSD has stopped, reversed or consolidated there has been a good reason for this, i.e. a Fibonacci retracement, trendline or a chart pattern or a combination of these factors. This is why you must draw all the relevant lines in so there are no rude shocks ahead. For example, price may hit strong resistance at 76.4% retracement on the daily chart and many day traders wouldn't be aware of the reason for the resistance because they haven't checked the daily chart.



In this example, the Euro traded between the trendlines and Fibonacci 61.8% retracements ignoring the Pivot lines. This illustrates the importance of looking at the big picture and marking in all significant lines





Entry points are clearly visible result from chart patterns such as Symmetrical Triangles, Highs (123s), engulfing candlesticks, Pivot Lines and Fibonacci retracements. Exit points are also clearly marked again by Pivot Lines and Fibonacci retracements.

Once you learn and practice using the methods within this book, trade opportunities will become visible everywhere.

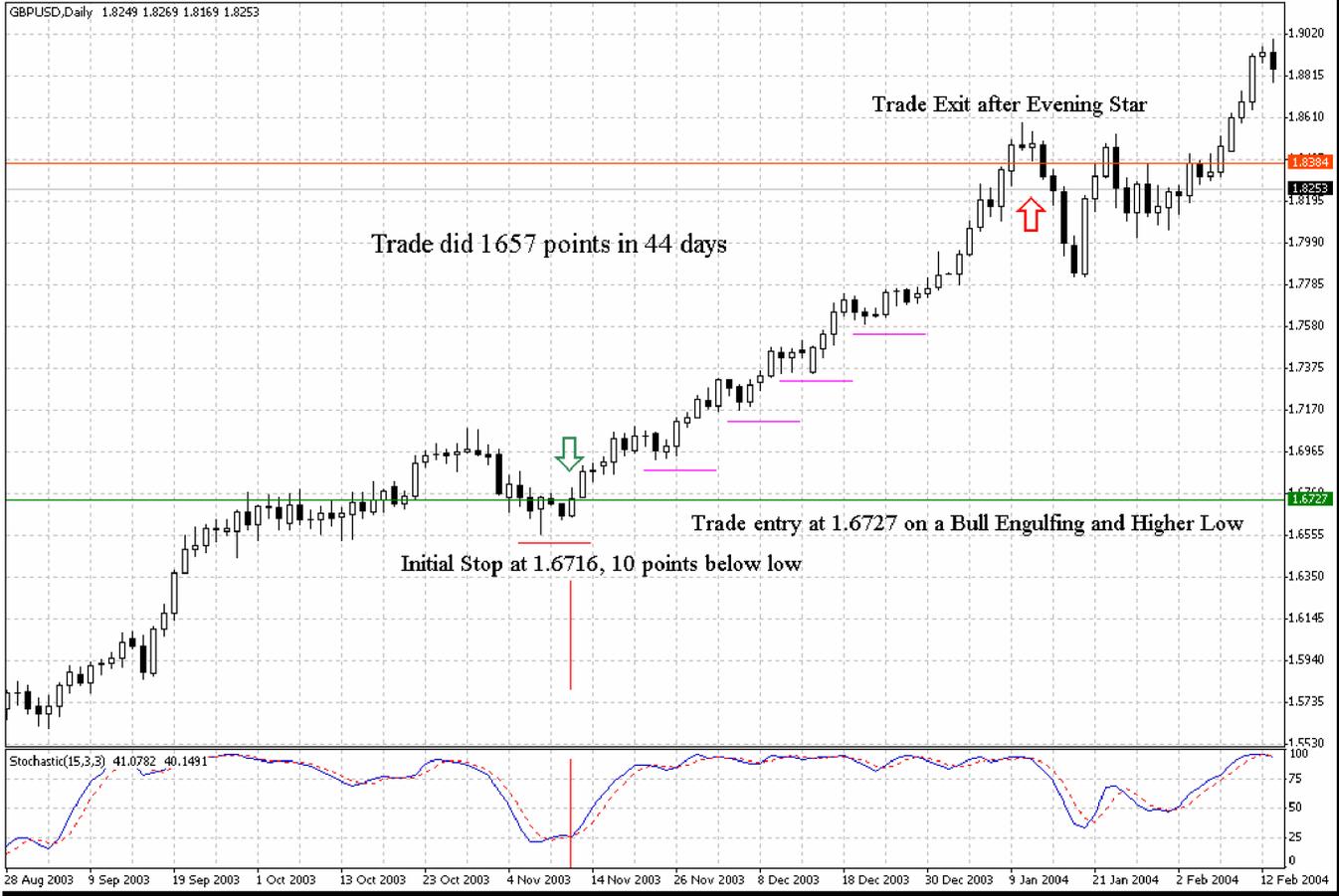
Green arrows mark entry points and red arrows exit points.

The CI System can be used on other time frames. For example the following charts are the GBPUSD Day charts.

The entry, exit and stop management are the same as on the shorter time frames. All the patterns are the same and give the same signals.

The horizontal purple lines show where the stops are place as they follow the trade up.

When using larger timeframes, you need larger stops to cater for the bigger pullbacks and consolidations. The best location for stops is 10 points below last LOW when going LONG and 15 points above the last HIGH when going SHORT



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# 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.

## 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.
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.

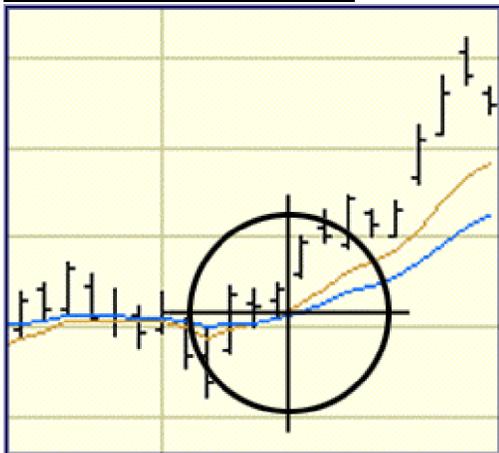
There is some difference in which 24-hour time frame to use to compute the daily open, high, low, close numbers. MG Forex begins their 24-hour day at 3 pm EST, and concludes the next day at 3 pm EST. FX Solutions' 24-hour day is 12 am EST until 12 am the next day. WebTrader daily charts are calculated 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. Secondly, 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.

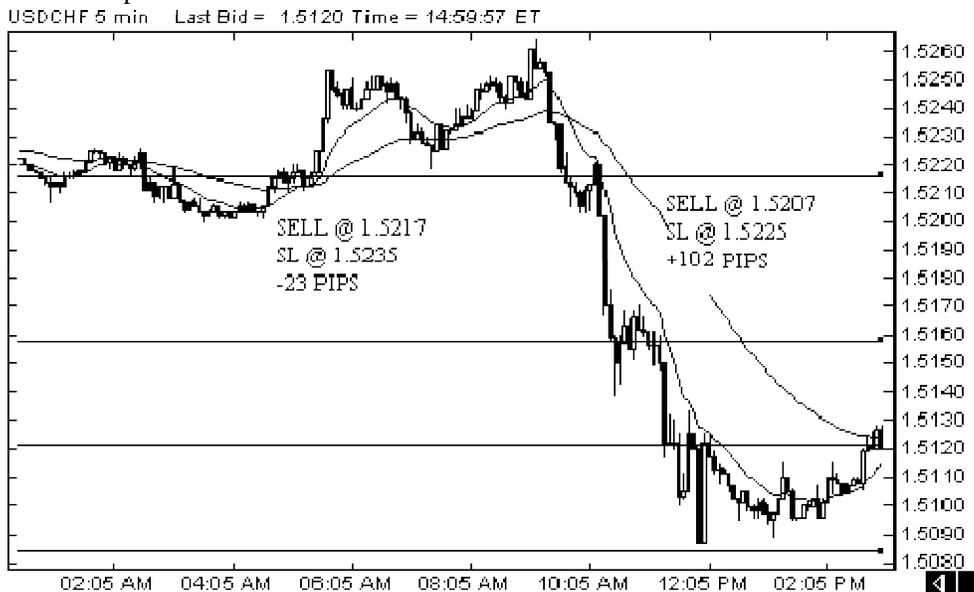
## II. The Trade

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

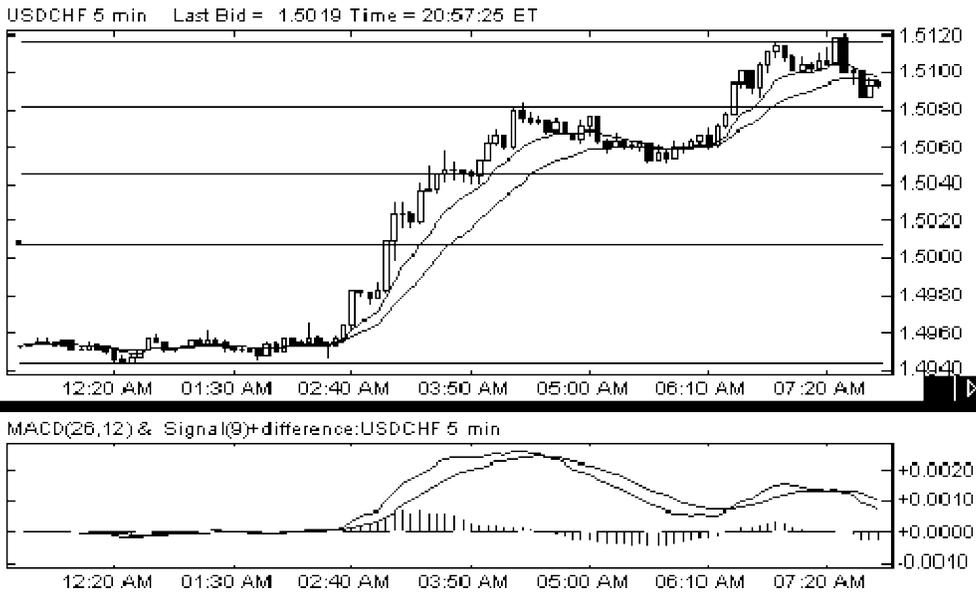
I use the 9 and 18 EMAs and the MACD on both the 5-minute chart and the 1-hour chart.

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.

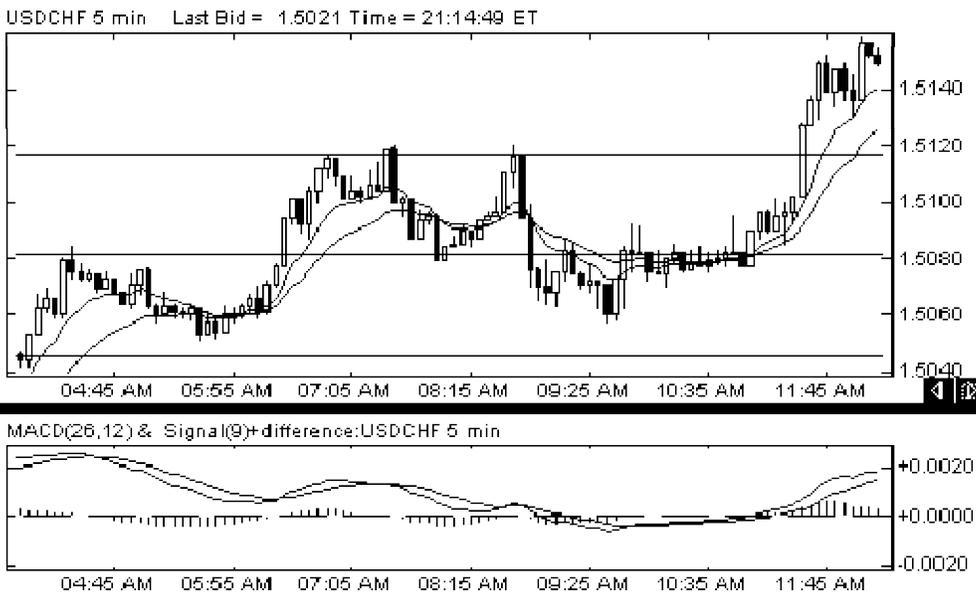
The only line that matters to me on the 5-minute chart is the Signal line as it crosses above or below 0.000. On the 1-hour chart, I will take note of the crossing of the MACD line and the Signal line. If they are below 0.000 and they cross to the upside, I will cautiously be looking for an entry signal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