Dear friends,

The only rule I have for being a part of this thread is that you must be respectful and kind to others. This means no putting other people down. Speak only that which builds up is a good motto for this thread.

I want to share a **very profitable** and **very simple** method of trading with you.

My name is Mike and I've been trading currencies for over 10 years. Throughout that time I have made many mistakes and learned from them (you can still see some of my old threads on here, all of which I view as mistakes that I have learned from). I've also discovered how to trade successfully, learning from many of you along the way. So I have opened this thread to share not only my method of trading, but to help you avoid the mistakes I made and to shortcut your education track to profitability. I also hope to continue to learn from others, as we all interact together.

I am an airline pilot flying the Boeing Dreamliner 787 as a captain. In my 35 years of flying Ive learned that to be a good pilot requires that we master the basics. Our main rules are: aviate, navigate, communicate. This means we must always fly the airplane (aviate), never allow ourselves to be distracted from this main rule. Secondly we are to know our course and stay on it (navigate) so that we avoid terrain and other aircraft. Finally we must be in touch with Air Traffic Control (communicate) so as to obey their instructions and receive their help if needed. These are the basics, and we who fly practice them every single flight.

Trading is like flying. There are some basic rules that must be learned and applied. It is my goal to share those rules, and encourage us all to fly right by applying them each and every time we trade. We want to get to our destination successfully, and to do so requires us to master the basics and not violate trading laws.

My method of trading has a risk/reward ratio that is literally 1 to several hundred, sometimes less, sometimes much more. It consistently pulls 500-1000 or more pips out of a 100 pip move, all with a very small risk. How is this even possible? It's one of the rules of **High Flying Trading,** and I will be providing you with illustrations of this rule, as well as teaching the other rules, as we proceed along together.

In this business, like flying, knowledge is power. In order to be successful traders we must continually be thinking, studying and growing. We must learn from our mistakes and learn from our successes. Think of needing to get a *doctorate in trading* in order to be successful, and that amount of learning requires much time and effort. Dedicate yourself to diligent study, careful learning from mistakes, and ongoing development of yourself in all areas.

My method of trading is simple, very simple. One indicator only. It can be traded on any time-frame with any instrument that moves and trends. It can be traded in Frankfurt and London, New York and Asian time periods. And while you will find it extremely simple, trading is an art that can only be mastered through much effort and time. If you're willing to put out some effort in study, sharing what you learn along the way, then come and study with me.

Sit back, relax, and enjoy the flight.

"Altitude and Airspeed"

Pilots know that we must at all times have altitude and airspeed. These are the two cardinal rules of flying, for if we run out of either one we stop flying. Altitude and airspeed.

There are two cardinal rules for being successful in trading. They are very simple, and here they are:

1. **Keep losses small.** In flying it might be stated, never have an accident. This of course is absolutely critical in trading, too, for we want to live to trade another day. In other words, our trading must be careful to protect our capital first, so we keep our losses absolutely tiny in comparison to our profits.

2. **Let profits run *and multiply them***. When I fly from Chengdu, China to San Francisco, California we are going from East to West and there is a Jetstream of wind that travels that direction. Our dispatchers will put us directly in that Jetstream to take maximum advantage of 150-200 knot tailwinds. When we are in a trend we must multiply profits, catching the Jetstream of the trend and riding the tailwind which allows our profits not merely to add up but to multiply.

Of course there are many other rules. For instance:

Our method must be simple. What good does it really do to have tons of indicators, Fibonacci retracements, support and resistance, big round numbers, half levels, candlestick pattern notifiers, trend lines, horizontal lines, fifteen indicator windows open, etc. While some of those things are helpful, and we can certainly reference them if we want to, we must keep our trading basic and simple. My Boeing Dreamliner aircraft is very sophisticated, with all the latest technology, and yet we use the same basic instruments that I learned to fly a Cessna 152 with.

Our method should be logical. It should make sense, and fit in with sound reasoning. Being logical means it does not violate our two basic rules, it is consistent, it is timeless. When studying and learning different methods we should relatively quickly say "oh, that makes good sense" in order to know we are on the right track in our learning.

Our method should be duplicable. It should work anywhere where there are trends. It should work in finance and in fashion, in business and in industry, in all areas of life. This ensures that our method is sound and that it will continue to work in the future because it is based on the behaviors and patterns of mankind.

Additionally, we must **treat trading like a business.** We often spend many thousands of hours and dollars learning our profession, and we should think of trading in the same way. Trading successfully requires us to learn and practice, investing time in our future business. One thing I like to do is write down every mistake I make, stating what I learned from it and what I would do differently next time. This is a carry-over habit from my early days learning to fly, I still do this after each flight today. And I have done it for 10 years in trading. We want to be part of the 5% of traders who make it, so we must treat trading as a business. Would you want to fly with someone who treats flying as a hobby, tinkers with it to pass the time, or someone who is serious about it and has invested the time to learn it right.

There are more rules to trading, and on this thread you can feel free to add your wisdom. Collective wisdom is so much greater than any one person.

Altitude and airspeed. Two rules we cannot break.

Keep losses small, let profits run--and multiply them! Two rules we cannot break.

Our trading method will take maximum advantage of those two cardinal rules.

Post 3: Illustrations

I am now going to show you a series of illustrations, highlighting and explaining my method.

It's important to understand that my way of trading is only one way, I'm sure it is not the best way. This is why I took a few posts in the beginning of this thread to share the overall objective, the big picture, the *40,000 foot overview* of how to trade. Now you can take and modify things to suit you, to fit your objectives, and to coincide with what you already know about trading. We always want to keep the big picture in mind: **our objective is to get from Point A to Point B safely, that is, to not blow up our trading account and to trade profitably.**

When considering entering the market we want to enter on the start of a trend. We can add to our position as the trend moves, but we don't want to make an initial entry halfway through a trend. We will consider our initial entry our departure airport. We want to depart at the departure airport. At the beginning of a trend.

Of course this will mean that we may have several small losses while looking for the trend. There are several things we want to do to help mitigate these losses, such as keep our position size small, spread out our trading capital over numerous currencies (some will range and some will inevitably trend) and keep a tight stop loss at the point of the previous swing high or low. There are other things, and feel free to add some as the thread moves forward.

When we are at the gate ready to depart any number of things can go slightly wrong to delay our departure. Weather can delay departure, mechanical problems can arise that take time to fix, baggage loading can sometimes cause delays, etc. I'm sure you've experienced some or many of these things. They can be costly to an airline but they are part of doing business.

Small losses while looking for a trend are part of doing business, and must be accepted and even embraced (because we are one trade closer to the trend). Not every flight departs on time. If you are looking for a system that takes no losses then you will want to continue your search. But if you're willing to accept small losses to make large gains then continue studying here with me. When I take a small loss while looking for a trend it tells me I am one trade closer to *departing and flying high and fast.*

I have a good friend who has a food truck business. He drives his food van to fairs and civic events where there are lots of people. On good days he can make thousands of dollars in food sales (and he and his wife are fabulous cooks). One good weekend and he is rolling in the dough (pun unintentional), making money hand over fist.

But he lives in Iowa where the winters can be harsh. It is during these cold and snowy winters, where very few people come outside to purchase food, that makes him or breaks him. He must not purchase a ton of food during these times or it will spoil and he will have large losses. He must manage this time with small losses in preparation for summer when he will catch a tailwind and make a ton of profit.

This is simply how business works. And it is how trading works.

What I am going to do now is show you some trades using a 4 hour chart. I just picked 4 hours for illustration purposes. I like to trade the daily timeframe, due to my schedule, but occasionally when I have time I'll trade for a day on 15-minute or 30-minute timeframe. The timeframe is up to you.

On the chart I am posting I am showing how I get into a trend. You can use any method you want to find the initial trend: moving average cross, stochastic cross, trend line break, support/resistance bounce, round number touch, alignment of stars and moon, and the list goes on and on. The reality is that *the method of getting in to the initial trend is not very important.* **It is how you manage your trade once in (keeping losses small, letting profits run and multiply them) that matters.**

I use a 34 SMA (smooth moving average) cross as my entry point. It is very simple. Sure there will be false signals (maintenance delays, weather delays, etc.) but it will ensure that we do get into every trend, and do so close to the beginning. This is what we are after, for as you are about to see, once we get into the trend *we are right in the middle of the 200 knot tailwind and we will fly high and fast to profits.*

Some people will want to start adding indicators to mitigate the whipsaw of the initial entry, and that's fine. Some use RSI or Stochastics, or other oscillators to try to mitigate their risk on entry. That's ok, every business needs to try to look for ways to cut costs. But I doubt you will find a way to eliminate false entries entirely. Even with all our modern technology, our departures can still be delayed at times.

If you want to post your current method for reducing false entries that's ok, maybe we will all learn a better way. I'm merely posting my way, there are probably better ways. But I have tried all the ways mentioned above (and many more), and while they might eliminate some false entries they also eliminate some good entries, and *that we cannot afford to do.* My friend in Iowa cannot afford to miss a nice, sunny day selling food at the fair, it would cost him thousands of dollars to do so.

I’ve attached the chart, which shows a basic entry, and in the next post I will show how we let our profits run—and multiply them. I will be posting numerous charts so we get the idea of how to let profits run—and multiply them. Then, I will begin posting my method for keeping losses small.

Attached Image (click to enlarge)

How to take advantage of a trading tailwind.

When we fly East to West our dispatchers try to pick the most advantageous route and altitude to put us right in the middle of the Jetstream. We can save sometimes two hours or more (on long routes) by flying directly in the tailwind. Our technology tells us what the winds are like at different altitudes, and we try to maximize the tailwind.

The reality is that most routes we fly from East to West take advantage of the Jetstream tailwind. Likewise in trading you can follow a trend and make money in that trend. But our airline wants to maximize the tailwind, so we not only fly the correct route but also the optimum altitude. We are maximizing the Jetstream.

In trading we not only want to follow the trend we want to maximize our profits in that trend. Again there are lots of ways of doing this, and my way is only one way. Some people add positions on retracements, or at key levels or upon touch of a moving average, etc. These are all good, and there are many more ways. You can share your way of adding to your trend if you like, we can all learn from you.

I take a very simple approach. I add on to my trade whenever there is a candle that closes opposite to the trend. A bull candle in a bear trend is a retracement, and is a reason to sell high (in comparison to what the price just was). A bear candle in a bull trend is a retracement, and is a reason to buy low (in comparison to what the price just was).
On my initial entry I usually do not move the stop loss. It stays above the previous swing high or low. Not moving that stop loss allows that initial entry to catch the entire move from top to bottom in a downtrend or bottom to top in an uptrend.

My subsequent entries, however, have no initial stop loss (if uncomfortable with this, you can always place a stop), and will be closed upon either of two conditions being met:

1. First, if the market closes above the SMA I will close this trade.
2. Second, I wait for the market to move in my favor a small amount (sometimes as little as 10 pips, depending on the market) and then place a stop loss at breakeven plus cost (spread). Since I start my trading day at 5:00 PM Pacific Time I do this manually as the market moves before I go to bed. But I'm sure there are EAs that would assist you with this if needed.

This means that these subsequent entries have no chance of taking the entire trade into a loss (remember, we have a position on at the beginning of the trend that is in profit), a medium chance of running with the trend clear to the end, and a larger chance of just breaking even. In other words, there is no risk to adding on positions like this, and a chance for a large reward. No risk, large reward trading is what we like. It is part and parcel of our **High Flying Trading** method.

If you examine any trend you might question why we place a stop loss on these add-on trades at all. After all, adding on these trades clearly would bring in profits in a real trend, taking advantage of huge Jetstream tailwinds on our flight. Indeed, you may choose not to set a break even on these at all. Back test it, study it, decide if you want to use this method or let them run, or maybe come up with another method that is different.

The reason I set the break evens on these add on trades is because of rule number one: keep losses small. Sometimes, when the trend gets extended price will come back to the SMA, and all those trades coming back to the SMA will be losers.

The reason to *not* set break evens on these add on trades is because of rule number two: let winners run—and multiply them. In a good trend these add on trades will produce hundreds and thousands of pips, literally compounding your profits on the way to your destination.

So which method should we use? The answer is up to you. I will sometimes not place the breakevens on the add-ons near the beginning of the trend, and will place them on the add-ons later in the trend, when the price gets quite a ways away from the moving average.

Experience will tell you which to do. If you are new, place the break evens and take the chance that some trades will only break even that could have produced much more profit for you. At least you are keeping losses small that way. More experienced traders will just “know” when to place these break evens on their add on trades, as the market is very far off from the SMA.

Here is the chart with the reentries:

Attached Image (click to enlarge)

Trend Summary:

In flying I want to maximize the tailwinds, flying the route my dispatcher has programmed that contains the strongest tailwind, and sometimes changing altitude to pick up more of that wind. This gets us to our destination faster, saves thousands of pounds of fuel, and makes the airline more profitable.

In trading we want to maneuver so as to take best advantage of the trend, which sometimes has the effect of netting ten times more pips than the trend itself.

When my friend from Iowa knows that the next week will be sunny, and that the fair is expecting a record crowd, he will maneuver carefully so as to take best advantage of the circumstances. He will stock up on food, make some things ahead of time, hire an extra helper, etc. He knows that this one week at the fair could bring in a year’s worth of income, if he works it correctly.

Trading works the same way. We must be very careful not to take big risks (rule #1) and we must let our profits soar—increasing, multiplying and compounding them at every turn (rule #2). We know that one good trend can hugely affect our trading business' bottom line.

Here are the numbers from the above trend:

Total trend move: 570 pips
Total pips gained: 5379
Total risk: 12 pips (previous swing high)
Risk/Reward ratio= 1/448
26 winners 6 losers
On a standard account: $53,790.00 (minus spreads)

This was a nice descent into a smooth landing. Is this an average trend on the 4 hour timeframe? I don't believe there is such a thing as an average trend. Trends are like the people they represent: big, small, short, tall, marathon runners and couch potatoes. I only chose that trend because it was the latest one, occurring just this month, January 2016.
In this case we did not use the break evens on the add-on trades. Had we added those break evens we would have lost less and won less. Overall it probably would have been less profitable in this case to use the break evens. Sometimes it will be better, in saving some losses; other times a little worse in giving up some profits. It's up to you.

This trade also shows that, while we try to minimize losses trying to find a new trend, we can afford to take numerous small losses (well hundreds really, if we had to) while searching for the trend. We may get a few whipsaws, or many whipsaws, but as Ed Seykota says, "one good trend pays for them all."

Here is the chart of the results of the trend trade:

Whipsaw: the Importance of Being Deliberate and Methodical

One thing that is drilled into airline pilots is the need to be deliberate and careful, sometimes even “slow” in our decisions. In the simulator we practice handling abnormal situations and emergencies, the point of which is to teach us to be deliberate, think through the situation methodically, analyze the problem carefully, go through our checklists not missing one single item, consider our resources and utilize all that we have. Captains, especially, are tasked with keeping “the big picture” in mind. We are to keep the main thing the main thing.

In trading we must learn to think logically and deliberately about our method. Take your time to think over the big picture of trading and learn to keep the main thing the main thing. Realize that in an abnormal situation, such as price retracing toward our stop loss, and then another stop loss, and another, we should not be in a panic. Our stop loss is in place, and we are not concerned about it in the least for we know stop losses are part of our “operating costs” which every business has.

Last year a foreign commuter plane crashed and killed all onboard. It turns out that shortly after takeoff an engine failed. The pilots, rather than being deliberate and methodical, and probably acting on adrenalin, reached over and shut down the only good engine remaining. They were no doubt thinking they needed to “feather” (shut down) the engine that had failed and was wind milling, causing drag. But in their haste they shut down the wrong engine, the one good engine.

Learn to be careful and deliberate in your trading, logically thinking through your trading plan and following it consistently, not being reactionary or acting on impulse. Flying, done correctly, should be boring. **So should trading.**

Now let’s examine our next few trades, the ones that came immediately after the trend discussed previously. I think you’ll see why I began with the instruction about the need to become deliberate and logical in following our plan.

The very next trade gave us 2 indications that it would be a dangerous trade. Not that we wouldn’t take it, we take every trade, but we should be wise in the way we use our money management. So the 2 indications of danger up ahead are:

1. The SMA is still sloping downward. This means the move lower may not be over yet.
2. The distance between the entry point and the previous swing low is very large. Whereas the previous trade had a 12 pip risk this trade has over 100.

These two things make us cautious on this trade. Cautious, in my mind, means we reduce our leverage for this trade, trading with less units (I use Oanda as my broker that lets us trade in units, rather than lots). We have not talked about money management yet, we will do so in future posts, but right now we just need to recognize the warning signs when we see them and be prepared to act cautiously.

This next trade, the long trade in the yellow ellipsis, lost 70 pips when it closed below the SMA. It is the cost of doing business. We have just made 5379 pips, now we lost 70 pips. This illustrates our two rules: keep our losses small and let our winners run—and multiply them. How many of these 70 pip losses would you take in looking for a trend? Of course we could take many of them. This whipsaw does not give us sweaty palms or shaky knees.

When we are sitting in the airplane at the gate and get notified of a ground stop program in effect due to weather, we calmly accept that as our fate for that flight. We will be delayed. It is part of flying and not something to fret over or get angry at. We will still depart, it will just be later.

This is the way we must look at stop losses. Our trend is delayed, there is some cost to it, but we will depart. The next trend will come, and we will catch it right from the beginning, right at the departure airport.

Even if we had numerous of these whipsaws, with each one we know we are getting closer to the trend, so we press forward. The worse the situation looks the better we feel about it, the more we anticipate victory just up ahead:

"Hard pressed on my right; my left is in retreat. My center is yielding. Impossible to maneuver. Situation excellent. I am attacking. Attaquez!"- General Ferdinand Foch (to General Joffre during Battle of the Marne)

Some people would say to only take the trade in the direction of a higher moving average, which would have eliminated this loss. That's true, and that's perfectly acceptable. However, that method would also have missed the next trade, which we could not afford to do.

Others will use different methods of getting in the trend, such as a trendline break. Perfectly fine. The point is, get in early.

Finally, some people would say to wait until the market makes it's breakthrough of resistance (in this case the moving average) and then retraces back to support. That is a very valid way to trade. I do not trade that way simply because we would have missed the entire next trade (and it is still running). We must not miss trends.

Here is our next trade, the losing trade in the ellipsis:

Trend Results:

Before we discuss the results, let's think about something regarding flying. This time using a rocket as an example. If you've ever seen a rocket take off you know that right in the beginning it exerts a whole lot of energy but doesn't move far or fast. As the engines/rockets roar they are burning huge amounts of fuel, far more than at any other point in the rocket's journey, *yet it is barely moving.*

Then, as the rocket gets airborne and begins its climb it "throttles back" at a certain altitude so it begins burning a lot less fuel, expending a lot less energy. And yet it is now moving at hundreds/thousands of miles per hour.

Finally, once that rocket gets into orbit it is expending no energy what so ever, it is orbiting at a very high rate of speed without any burning of fuel or using of energy.

Remember this when you are just starting to get in the trend. This is the time when you will burn the most fuel (pips) and could be making no progress. You might go through one stop loss after another, seemingly wasting energy while going nowhere.

Once you get airborne into the trend, and begin adding positions, you find that your profits are compounding, almost like they are on autopilot. **If the trend lasts, you will be orbiting.**

Here are the results of the previous trade (which is still open).

Everybody always wants to know about ranging markets, how to handle the whipsaws, etc. This is good and right, for we are simply trying to minimize losses. Every business should do this.

I have spent the last 10 years studying ways to minimize whipsaw. I've read practically every thread on Forex Factory and have studied with mentors outside of Forex Factory, always seeking the illusive answer to minimizing losses during flat markets. I made it my goal to figure out how to do this.

What I have discovered in my search is that **I had been asking the wrong question.** Instead of asking "how can I minimize losses in a ranging market", instead of looking at a flat SMA and saying "wow, that sure would have produced some losses", I have learned to change my thinking and questioning.

Here is how I have changed my thinking. Now I ask, "How can I be profitable in trading?" Now, instead of looking at ranging markets around a flat SMA I look at the trends before and after, and ask, "Could I have traded that entire period profitably? Would trading this have made me money?"

Now that's not to say that we should stop looking for a method that would minimize drawdown during flat-lining markets. We should always be trying to improve, to find ways to reduce cost, to make our business more efficient.
But what I am trying to get us to do on this thread is to **look at the big picture.** To view our trading from 40,000 feet. To zoom out and see the entirety of our trading method, and ask ourselves a simple question: "will I make money trading this way?"

And so the one key thing to embrace in trading (which includes both our rule number 1 and rule number 2) is this:

Keep our losses linear while making our profits exponential.

Take numerous single losses around that flat SMA, but when the trend materializes then pile on the orders hand over fist, using multiple reentry methods if you'd like. I've shared my reentry method, which simply amounts to buying low and selling high (in comparison to where the market just was), others have shared some of their methods. I like my method, it allows me to pile on orders and ride a very strong tailwind.

Again, keeping the big picture, the actual method for reentering is not as important as the fact that we are committed to multiplying profits in a trend. If compounding interest is the 8th wonder of the world, **compounding profits in a trend is the most important thing in a trading method.** These compounding profits will more than make up for singular losses around a flat SMA.

So yes, continue looking for ways to minimize losses in ranging markets. But don't let them discourage you, or you'll not ever make a good trader. Rather than being discouraged by them, rise above the chop and see things from a higher view. Is it sound trading to take linear losses and exponential profits? Am I making money when I sit through 40 periods of chop followed by one trending period? These are the questions to ask.

Relating this to the business of flying, we must learn to think like a CEO not an employee (absolutely nothing wrong with being an employee, I'm just using an illustration). A CEO does not look at times where flights are delayed, which cost the company money, and think "wow, these delays will ruin our yearly profits." Or "oh my, these winter months are losing us money every single month, I don't think it's worth it to run this airline." No, a CEO sees a bigger picture. He looks at the operation from 40,000 feet and sees that Spring, Summer and Fall months bring in much more profit than a few losses in the Winter. Granted, he is always looking for ways to minimize losses; implementing cost saving programs when and where he can. But he accepts small losses in exchange for large profits as a normal part of business life.

We must do the same in our trading. We could look at flat line SMA times all day long, and all of us agree they would be times of losses. This might lead us to decide that, for my type of personality, I would rather be a range trader, since ranges happen the majority of the time. That's perfectly fine, and a good decision for many. Or, we might decide to accept small losses, helping our range trading brothers and sisters make a living too, and stay with our trend trading methodology.

After 10 years in this industry, reading everything I could find on the subject, testing many different methods and concepts, I'm convinced that range-losses are here to stay, and that **trend-gains will overcome them**, by a value of multiples.

Having said that, let's look at some times when whip-saw is the norm, and losses start to pile up. In the following picture we go through a 40 period range-loss. That's 40 period-times (in this case 4 hour) where we get one delay after another, where we wonder if this plane is ever going to get in the air. And I do know that there are times when ranges are much longer…the flight gets canceled and we try again the next day!

Here is the first picture. Study this chart!

Attached Image (click to enlarge)