Tim Trush & Julie Lavrin

introduce

MagicBreakout
Forex Trading Strategy

Your guide to financial freedom.

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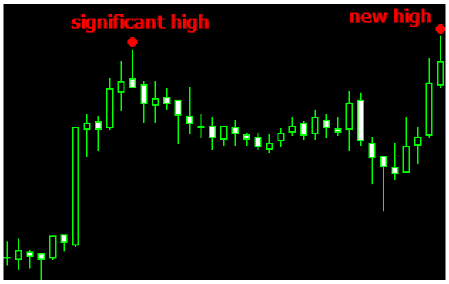
Chapter I: Introduction

I.1. Why *MagicBreakout*?

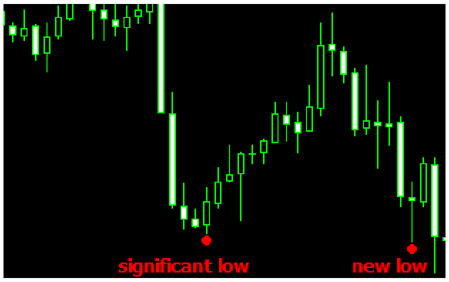
- **Enter the market before the crowd.**
  With this strategy you will be able to predict breakouts before the momentum traders arrive.
- **MagicBreakout is a conservative trading strategy**
  It's safe. You risk a small amount of money on every trade.
- **Mechanical.**
  Trade by following a set of simple rules.
- **Easy to implement.**
  Convince yourself that trading is really easy!
- **Profitable.**
  If you stick to the rules and go through a series of losing trades, you will finally become profitable.
- **Scalable.**
  Our MagicBreakout strategy has become a key of the top traders.
  An improved *MagicBreakout+* strategy can make +67% in one month.
  Our student made 5400% in one year using his own exit rules.

I.2. What is really a "breakout"?

A breakout occurs when the price breaks a significant high and makes a new high. This is the definition. Let's give an example.



Another breakout occurs when the price breaks a significant *low* and makes a new *low*.



It looks simple. Most traders are trying to catch these breakouts and to make money on the accelerated price move. A so-called *momentum trader* places his buy-stop order just above the significant high. He is waiting for this high breakout. If the breakout didn't happen, he cancels his buy-stop order and prepares for the next trade. If the breakout happens and his buy-stop target is filled, his trading platform automatically opens a long position. The same holds for a low breakout (in that case, trader would place a sell-stop order). Why traders are doing that? Because the price action typically accelerates after a breakout and results in a nice profit. But it's not so sweet every time. There is a risk of significant loss. The nightmares of momentum traders are “false breakouts” and they often happen. Let's explain *why*.

Good breakout

False breakout

I.3. The secret behind false breakouts

Let's discuss the false high-breakouts (the same holds for low-breakouts). There are times when price breaks a significant high, a buy order is filled, long position is opened, but the price quickly turns back down and never comes up or stoploss is filled. The trader has to exit position with a loss. Small losses are not something unusual. Every professional trader has losses in Forex trading, you have to admit it. But a profitable trader wins more than loses after time. We have tested some breakout systems on all major currency pairs ten years back. Most of the breakouts were false breakouts or resulted in a small profit. Any system that relies purely on breakouts does not work consistently. Since we, Tim and Julie, are in the financial markets for more than ten years, we have collected some sort of information the large banks and corporations do not want you to know.

A large bank has enough money to move the market for a while. When the price hits the significant high again, it should normally bounce back from this high forming a *double top* pattern. But momentum traders would go long when a breakout happens - it is a well known practice explained in previous paragraph. When the price comes near the high, traders inside the bank quickly buy a large volume of one currency pair ($ millions!). They move the market a few pips up and a forced breakout happens! There is a bunch of buy-orders lying just above the high and these orders get filled immediately. Then the market moves some additional pips up because of new long positions. Then the bank happily closes it's own large position (sells the millions back) and the price quickly turns back. The banks “earn” great amount of money doing this unfair business. They do it a few times every day...

I.4. Julie comes with a genial solution: Enter the breakout before the crowd!

Julie experimented with the CCI indicator (Commodity Channel Index) in the Forex market years ago . There are generally two lines: +100 line and -100 line on the indicator. When CCI crosses (or "breaks") the 100 line upward, it is a good entry signal to go long. When CCI crosses (or "breaks") the -100 line downward, it is a good entry signal to go short.

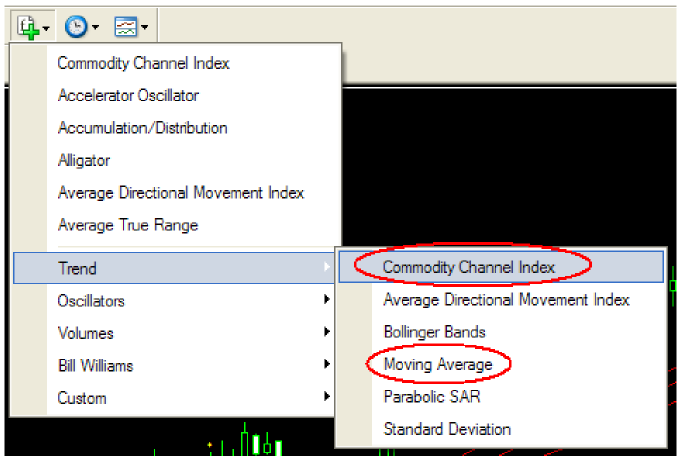
Good signal means that the probability of winning dramatically increases. In other words – CCI indicator acts like a filter for spotting winning trades. Not only a filter. It gives an opportunity to enter the market before a breakout! There was a hard work in developing a definite profitable strategy based on this knowledge. Our strategy is easy to use and gives impressive results. With our students, we made a fortune in the years 2006 and 2007 starting with less than one thousand dollars. We will give our knowledge to you in the next chapters.

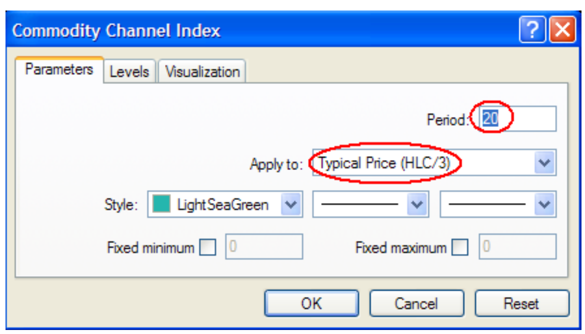
II.1. Chart setup

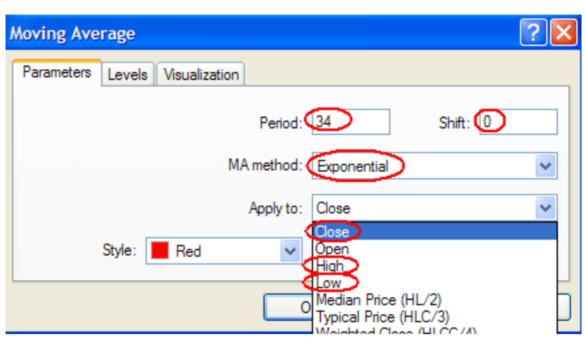
For the entry rules, we need two basic indicators:

- CCI 20 (Commodity Channel Index, Period 20, Typical Price)
- The *Wave* (EMA34 High, EMA34 Close, EMA34 Low)

The second one actually consists of three exponential moving averages, but we will treat them as one indicator called *Wave*. We will call them *Wave-top*, *Wave-middle* and *Wave-bottom*. Setup for MetaTrader 4:







Our chart is prepared for trading the basic *MagicBreakout* strategy

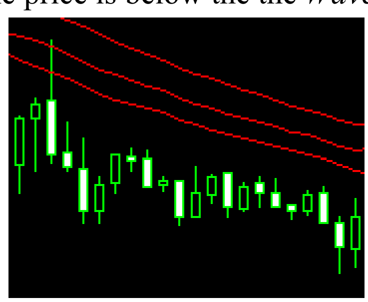
II.2. Entry rule

First, we will discuss long entries. Now, read the rules and you will learn practical implementation step by step in the next paragraph.

- **Be sure that the market is trending up.**
  Beware from the sideways market. The *Wave* is a great tool that helps us to determine the trend.

  Trend definition:
  <u>Uptrend</u>: The price has already crossed the *Wave* upward and the price is above the *Wave-bottom* at this moment.
  <u>Downtrend</u>: Similarly, the market is trending down if the price is below the the *Wave-top*.

Uptrend



Downtrend

- **Price was above the *Wave* for some time.**
  (above the *Wave-top*)
- **Price entered the *Wave*.**
  Price was above the *Wave* and then crossed the *Wave-top* downward.
- **CCI crossed +100 line upward; A POSSIBLE LONG ENTRY SIGNAL on the next candle open.**
  This is a good signal to go long on the next candle open. But be careful...
- **"Five bars check" rule.**
  Check that CCI was below the +100 line for at least five bars before the cross.
- **Check that the market is trending up now.**
  Check that the price is above the *Wave-bottom* as with the first rule.
- **Buy now!**
  If all above is filled, buy as new candle opens.

Look at the picture. We have defined an interesting pattern called "swing".

Simply said, *price entered the Wave and then returned back up*. But this sentence sounds too subjective. We have put it all into **mechanical** rules that are easy to follow.
Don't enter the market when you "feel" that the price is going up again. Some traders do so, but they get stuck when the price plunges lower! Don't rely on the standard breakout system. The breakout may be false. Enter only if CCI crossed the line! Look at the picture carefully. Do you see that we have entered the market before the breakout... before the crowd?! Do you see the great advantage of the *MagicBreakout* strategy?

II.3 Practical implementation

Practically, you must follow the written rules backwards:

- **CCI crossed the +100 line upward.**
  Was it below the +100 line for at least five bars? Is it above the +100 line now? If yes, continue to the next step.
  Remember, the signal is valid only when the candle has already closed.
- **Is price trending up?**
  Is price above the *Wave-bottom*? (Stick with our definition! Don't let your feeling or intuition to define the trend! Trend definition is a mechanical task here, although sometimes counterintuitive.) If yes, go to the next step.
- **Do you see a valid swing pattern?**
  Train your eyes on the first few trades and you will see the swing pattern subconsciously without reviewing the rules. Review: price was above the *Wave* and then entered the *Wave* (in other words, price crossed the *Wave-top* downward). OK?
- **Buy now!**
  And prepare your exit targets...

We can simply create the rules for a short entry:

- **CCI crossed the -100 line downward.**
  Look at CCI when the candle has closed. Was it above the -100 line for at least five bars? Is it below the -100 line now? If yes, continue to the next step. We have to check market conditions.
- **Is price trending down?**
  Is price below the *Wave-top*? (Stick with our definition! Don't let your feeling or intuition to define the trend! Trend definition is a mechanical task here, although sometimes counterintuitive.) If yes, go to the next step.
- **Do you see a valid swing pattern?**
  Train your eyes on the first few trades and you will see the swing pattern subconsciously without reviewing the rules. Review: price was below the *Wave* and then entered the *Wave* (in other words, price crossed the *Wave-bottom* upward). OK?
- **Sell now!**
  And prepare your exit targets...

Note: There exists a better entry and much better way how to identify the trend and filter some bad trades by looking only once on another timeframe. That system is a big advantage because there are only few traders watching on two different timeframes. You will learn our "Holy Grail" in the next chapters of incredible MagicBreakout+ strategy with our proprietary indicators and alerts that will make you a top trader.

We are too lazy to watch the market and look for good entry signals. MagicBreakout+ indicators and alerts help us to do it automatically. You will never miss a good signal or break the rules, the software can check all the rules for you. The software tells you exactly where to place stoploss! We recommend it for beginners too. The indicators will help you fully understand the swing formation and our amazing system.

Visit:
http://www.magicbreakout.com/plus

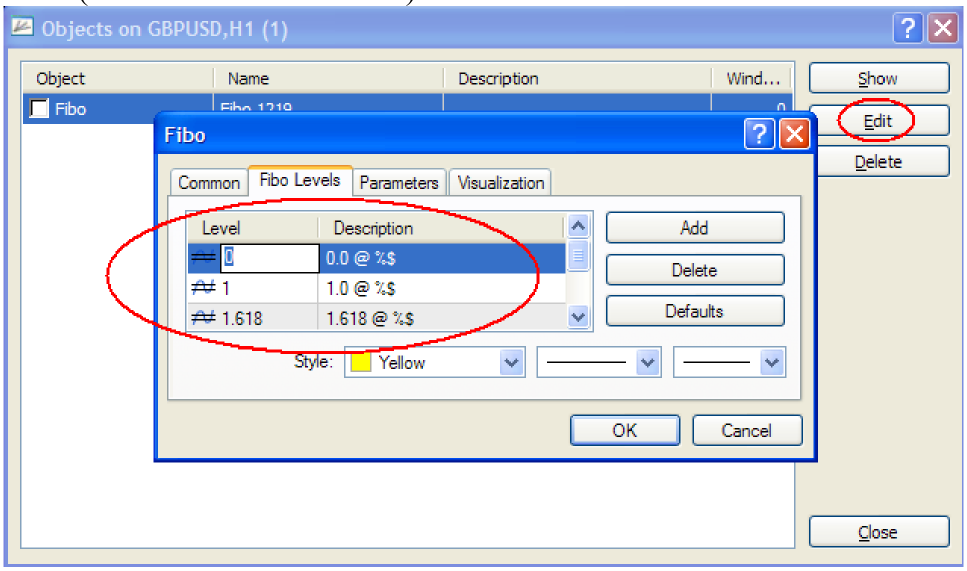
Chapter III: Exit

III.1. Chart setup

We will use Fibonacci targets in this version. Fibonacci targets are very powerful. We often see that price hits the target and quickly retraces back. MetaTrader 4 setup:
Click on the tool *Fibonacci Retracement*:

Place the Fibonacci retracements on the chart as shown below. Connect the swing high with swing low by dragging the mouse.

You have to modify the default setup. We will use these targets: **0.0**, **1.0**, **1.618** and **2.0**. Click right and choose *Objects List* (or use shortcut CTRL+B).



Select *Fibo* and click *Edit*. Edit the targets by double-clicking on the *Level* and *Description* values. We will use these *Level* values: **0**, **1**, **1.618** and **2**. You can choose a description for every level value. We recommend to set something like **0.0 @ %$** as a description. It is a useful trick; the mysterious symbol **%$** will be replaced by the price level on the chart (example: **0.0 @ 2.0480**).

III.2. Exit rule

Plan your trade, trade your plan. Let's assume we have opened a long position. We must take care about profit target and stoploss right after entry.

- Place the first profit target (sell-limit order) at 1.618 Fibonacci level;
- Place the second profit target (sell-limit order) at 2.0 Fibonacci level;
- Place stoploss (sell-stop order) at 0.0 Fibonacci level.

As the price hits our first target, close a half of the position (so we recommend you to trade at least two lots/minilots). As the price hits our second target, sell the rest. Place stoploss just two pips below the 0.0 level. The low acts as support and if broken, the trend is probably over.

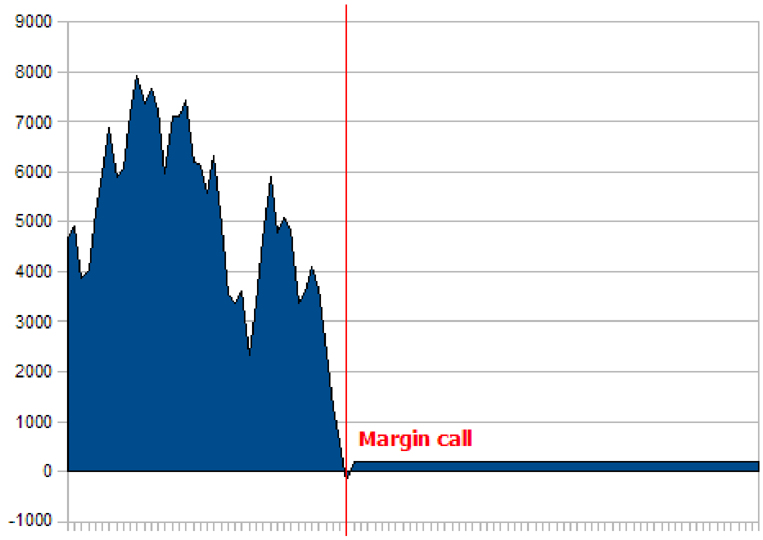
We can simply create the rules for exit from a short position:

- Place the first profit target (buy-limit order) at 1.618 Fibonacci level;
- Place the second profit target (buy-limit order) at 2.0 Fibonacci level;
- Place stoploss (buy-stop order) at 0.0 Fibonacci level.

Note: This is a basic exit rule. You can consistently make money using entries and exits as described. But look at the chart: wouldn't it better if we exited later? The trend continues, but we are are not in! Wouldn't it better if we could squeeze the trend to the end and earn HUGE profit on one single trade? "Trend following" from the beginning to the end of the trend is a dream of all traders in the world. Some individual traders know how to achieve it. They know how to recognize that the trend is probably going to reverse. They stay with the trend for days, weeks or even months and make millions. You will learn how to earn thousands of dollars on a single trade (!) in the next chapters of the MagicBreakout+ strategy.

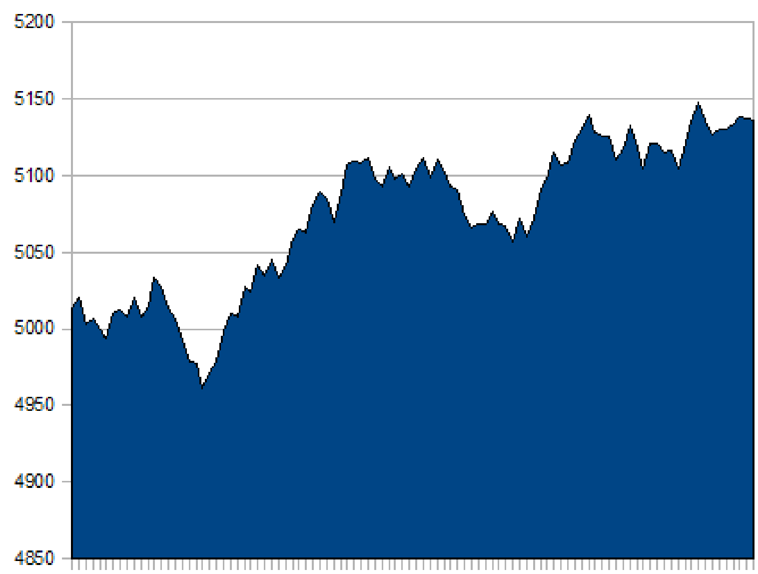
Chapter IV: Maximize your profits and achieve exponential earnings

What does your equity look like?



1) A typical undisciplined trader.

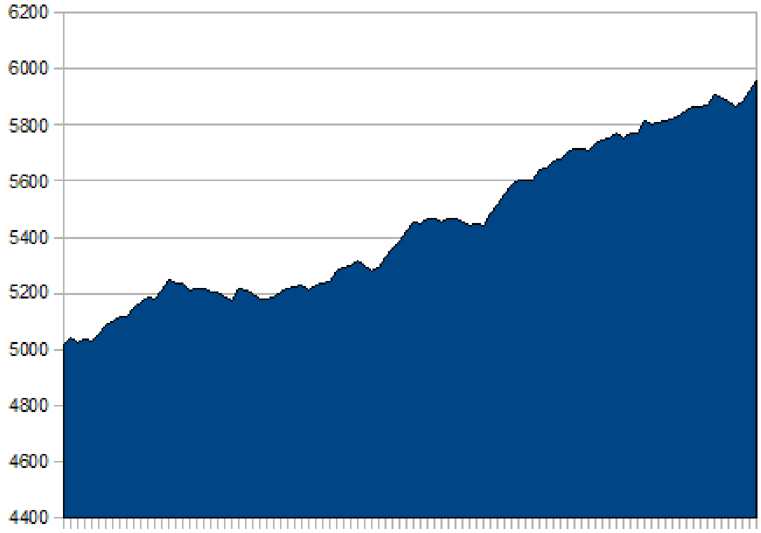
He lost.



2) A typical disciplined trader.

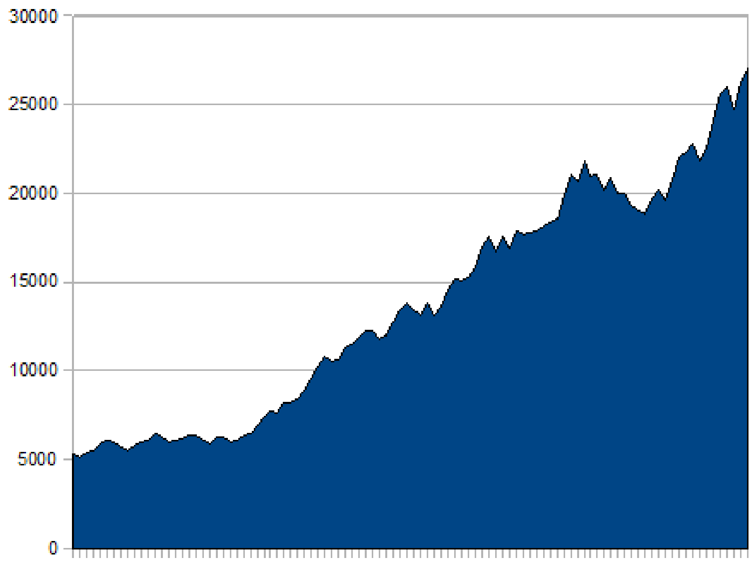
His account is growing.

But it's growing slowly and suffers deep drawdowns.



3) A typical disciplined trader that fully understands money management.

His account is growing consistently.



4) A typical disciplined trader that fully understands money management and has read the ***True Money Management*** book.

His account is growing consistently and rapidly.

He takes millions from the markets and he is winning trading competitions. Some professors of economics call him “a lucky boy” because they can't believe it's *not* pure luck that made him successful. He is a real guru but not a genius. He is just acting smart.

All four traders were trading the same strategy!

A profitable strategy is not everything you need to make money consistently. You must strictly follow money management rules. You need to know *how much* money to risk per trade and how to avoid losses. If you want to learn mathematical tricks and techniques of the Forex gurus, visit:

www.TrueMoneyManagement.com

Do you believe it's possible to make +67% in one month from conservative trading? Do you believe that our student made 5400% in one year? Don't? Get a proof and start trading the improved *MagicBreakout+* strategy with automated entry signals and unlimited profit potential.
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