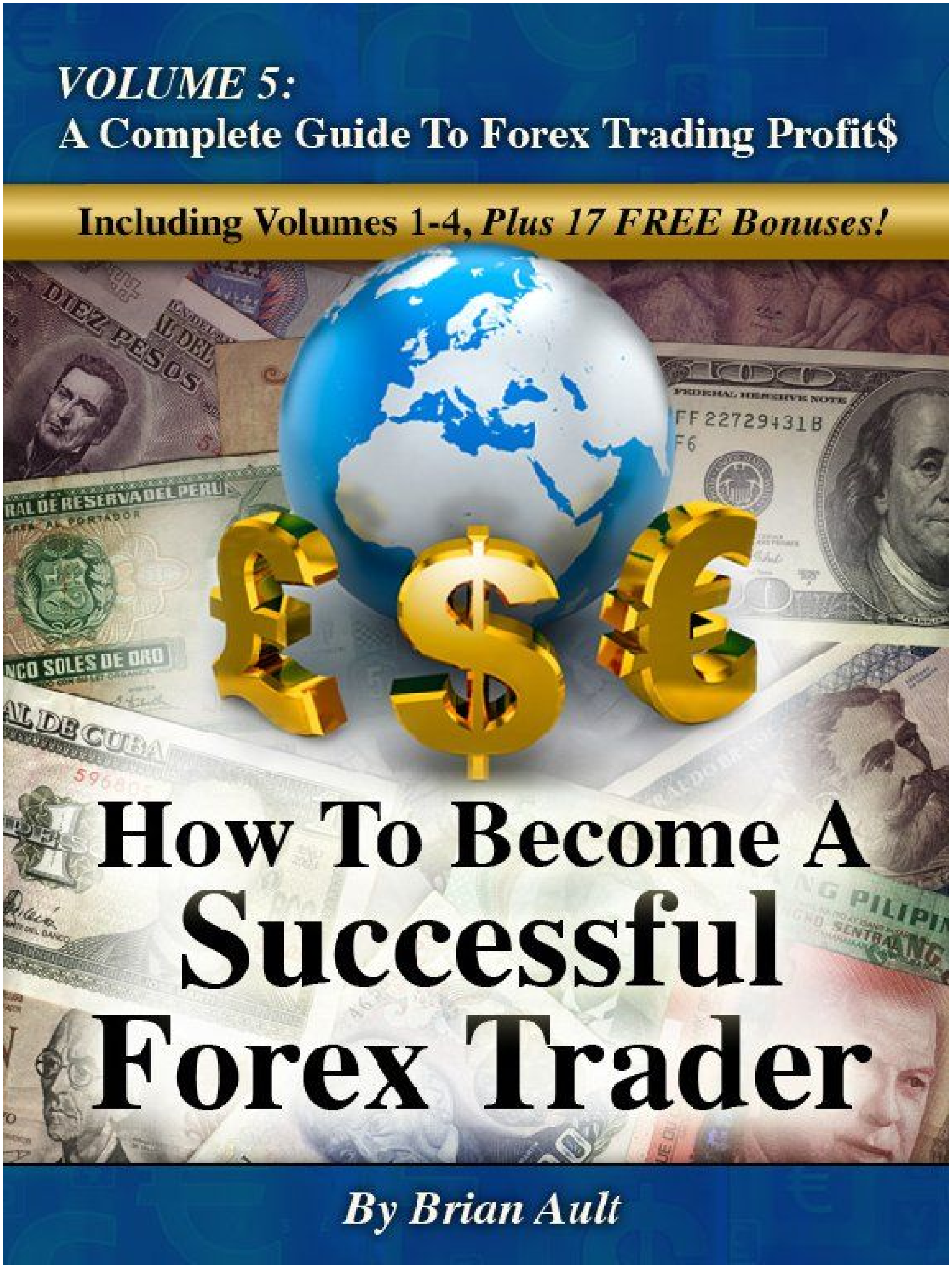
VOLUME 5:

A Complete Guide To Forex Trading Profit$

Including Volumes 1-4, *Plus 17 FREE Bonuses!*

How To Become A Successful Forex Trader

By Brian Ault



"How To Become A Successful Forex Trader"

Volume 5: A Complete Guide To Forex Trading Profit$

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Volume 1: A Beginner's Guide To Forex Trading Profit$ - Lesson 1: What is Forex Trading?

Forex Defined:

(For)eign (Ex)change: Forex is an acronym for Foreign Exchange. Foreign Exchange is the transfer of different currencies between parties.

When a U.S. citizen goes to the store and buys coffee in the United States, he takes dollars and pays for the coffee and gets change back in dollars. But when that same person travels to the United Kingdom and buys coffee, he has to exchange the U.S. dollars to British Pounds.

When European investors buy U.S. stocks, they have to first sell their currency (the Euro), and buy U.S. dollars, to acquire those stocks. When the U.S. equity markets have a big down day, foreign owners of stocks sell those stocks, sell Dollars, and buy back their currencies, pushing the Euro up in value! Currency trading, or Forex, makes the world work together! This process occurs daily with and between all world currencies.

HOW BIG IS THE FOREX MARKET?

Forex is the world's biggest of all markets, because all economic activity has to ultimately be translated into cash in some currency. Forex activity never stops! Currently, the forex markets trade $4 Trillion Dollars a day!

WHY FOREX IS IMPORTANT:

Forex is important because it is a key measure of the world's economies. World currencies flow between countries, as goods and services are bought and sold, and that trade flow affects everyone in the world!

Approximate Size of Markets:

U.S. EQUITY MARKETS: $30 BILLION

U.S. TREASURY AND BONDS: $400 BILLION

FOREX: $4 TRILLION <u>DAILY</u> MARKET!

WHY IS FOREX IMPORTANT TO YOU?

Forex is important to you because it provides an opportunity for individuals around the world, to achieve a second career or income, right from their desktop pc, no matter how old you are. What was once only the domain of the powerful, rich, and banks, is now available to the individual trader.

UNDERSTANDING CURRENCY PAIRS:

Forex has its own terms. In the world of Forex, currencies are called currency pairs. There are many currency pairs, and these are the main pairs:

GBP/USD – Great British Pound and U.S. Dollar
EUR/USD – Euro and U.S. Dollar
USD/JPY – U.S. Dollar and Japanese Yen
USD/CHF – U.S. Dollar and Swiss Franc
AUD/USD – Australian Dollar and U.S. Dollar
NZD/USD – New Zealand Dollar and U.S. Dollar
USD/CAD – U.S. Dollar and Canadian Dollar

A currency pair is simply one currency expressed in terms of the other. If two currencies are equal, then they would be valued at 1:1. In reality, the dollar is really a currency pair, the USD/USD! EURO parity, the EUR/USD, is worth $1.00.

Lesson 2: Understanding Currency Pairs

HOW TO READ CURRENCY PAIRS ON CHARTS:

When looking at a price chart of a currency pair, the chart is tracking the direction of the “bid” price (you can change this to the “ask” price on most platforms, if you wish, but it is not necessary). The first term is also called the base currency. The second term is called the counter currency. On a chart for the pair EUR/USD, if the chart is going up, the base currency is increasing in value. It means the EUR is strengthening, and the USD is weakening.

Lesson 3: How Forex Trading Works

“Spot” Forex Trading occurs largely between banks (“Inter-Bank,” or interbank). About 10,000 banks trade forex. Large funds and Corporate trading generates more than 95% of Global forex trading. Nike Corporation, for example, has 20% of its net income affected by currency exposure. Over $1 billion is traded by that company to hedge their exposure! Dell, Daimler-Chrysler, and Bank of America all profit over $1 billion USD per year also.

Retail Desktop “Spot” Currency Trading:

“Retail” desktop trading in “spot forex” arrived in 1995, providing the ability for any person to trade online from their home or office computer. However, most traders didn’t really start to “catch-on” to it until about 2001. What once was the domain of banks and institutions, has now become accessible to everyone, because of innovations in retail trading platforms and the internet. eForex is truly the online revolution of the 21st Century. (Forex “Futures” have been trading on the “CME” since 1972.)

Currency Order Flow:

Step 1: Customer enters a currency order via computer: (Buys or Sells pair.)

Step 2: Dealing Desk Receives Order.

Step 3: Dealing Desk fills order for customer. Dealing Desk offsets order.

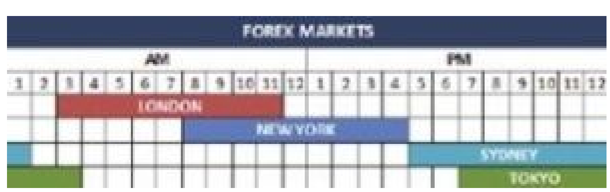
Step 4: Customer closes order.

Trading Sessions: Are 24 hrs/5.5 days, but trading activity opens and increases at about (notice the London & New York over-lap):

Asia: 7 PM EST

Europe: 3 AM EST

U.S. in New York: 8 AM EST



These are estimated times because the market never stops. For purposes of accounting, each firm selects a daily cut off time to mark the end of a session. Most U.S. trading firms and dealing stations will “rollover” any open positions at 5:00 pm EST daily, whereby, interest will be paid or owed on your account. Forex markets are closed for trading on Saturday.

Forex markets are open for trading on Sundays by 5:00 pm EST, and close on Fridays at 4:30 pm EST. All times are subject to change over time, so, please keep current by checking with your specific dealing station.

Know your forex broker’s trading platform “updating/offline” schedules as well, or you’ll be up the creek without a paddle.

Lesson 4: Understanding BID/ASK

Currency Pairs are available on a Bid/Ask basis.

This is a negotiated market! There is no static or single exchange listed price. Forex is similar to the bond market in it's dynamic nature. This results in a “Spread.”

Spread: Difference between the Bid and Ask price is commonly 1-3 pips for the major pairs. Customer Buys at the Ask, and Sells at the Bid.

BID/ASK:

A QUOTE IS A SIMULTANEOUS PRESENTATION OF THE BID/ASK

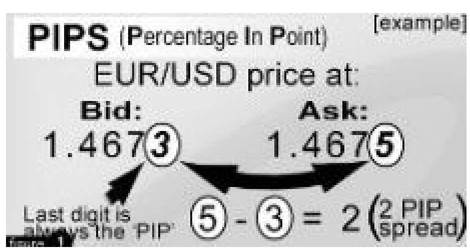
BID=99.00, ASK=99.05

Buyers will be filled at 99.05 - Sellers will be filled at 99.00.

Note: Price charts are really charts of the bid price! Most trading stations allow you to change to the ask price, but this is not necessary.

PIPS:

A “Pip” (“Price Interval Point” or “Percentage In Point”) is the smallest unit of price for any Foreign Currency Pair Movement. Example: If the EUR/USD moves from 1.3100 to 1.3200 it has moved 100 pips. If the USD/JPY moved from 109.00 to 110.00 it is 100 pips. If the EUR/USD moves from 1.2245 to 1.2246, it is a 1 pip move.



Lesson 5: Leverage and Margin

Forex allows "leverage" in trading.

A currency contract of $1,000 (1 lot) is leveraged 100:1, which equates to $100,000. If 20 pips profit were captured in a trade in the EUR/USD, $200 would be credited to the account value. It also cuts the other way. If 20 pips move against you, your account is debited $200. A "Mini" (.1) lot trade = $1.00 per pip EUR/USD.

MARGIN CONTROL:

In forex trading, keeping your account balance with excess margin is critical.

If accounts become thin in margin, the trader will need to:

a) get out of positions, winning positions, to avoid a margin call; and

b) add money.

Margin Excess: Available funds in the client's account not currently being

used to support existing trading positions, which can be used to open new positions.

A Brief History Lesson:

While the Commodity Futures Trading Commission (CFTC) has proposed limiting leverage to 10:1, you may have noticed that 200:1 leverage is still available outside the U.S. The CFTC's proposal is the equivalent of putting a 15-mile-per-hour speed limit on a superhighway, and many U.S. traders have responded by simply moving their accounts to the U.K. affiliates of U.S. brokers.

Effective November 30, 2009, they will be **requiring U.S.-based retail forex brokers to cap available leverage at 100:1**. To quote the notice to members:

"…beginning on November 30, 2009, all FDMs must collect a customer security deposit of at least 1% for the currencies listed in Section 12 and at least 4% for all other currencies."

The Section 12 currencies are the majors and some of the big European regional ones: British pound (GBP), the Swiss franc (CHF), the Canadian dollar (CAD), the Japanese yen (JPY), the Euro (EUR), the Australian dollar (AUD), the New Zealand dollar (NZD), the Swedish krona (SEK), the Norwegian krone (NOK), and the Danish krone (DKK). The US dollar (USD) is not specifically listed, but obviously it's included.

UPDATE: The CFTC has now limited Forex leverage to 50:1, effective October 18, 2010. A 2% security deposit is required for the major currency pairs, and a 5% security deposit is required for all other currency pairs. The NFA will enforce these new rules. The CFTC, based on the Dodd-Frank Wall Street Reform and Consumer Protection Act, will also limit retail forex trading access to non-U.S. dealers.

Lesson 6: Understanding Fundamentals

Fundamentally, currencies are deeply related to the economy of their countries and regions. In periods of strong economic health, currencies tend to go up in value. In periods of high inflation, they go down in value. In periods of low interest rates, they tend to go down in value also.

Fundamentals are important to understand a longer term perspective on currencies and values.

CURRENCY FUNDAMENTALS:

EUR/USD: EUROLAND ECONOMY OF 12 COUNTRIES IS OFTEN DEPENDENT ON U.S. GROWTH. EUR/USD CHART PATTERN IS OFTEN IN A RANGE. EUR/USD OFTEN REACTS TO U.S. MARKETS. IF U.S. EQUITIES ARE DOWN, EURO MOVES UP, AND VICE VERSA.

USD/JPY: Until recently, Japan has been struggling from a long term economic winter that started in the 1990's. Struggling economies need liquidity, and there is pressure for a weak currency. When the chart of USD/JPY is up, it is reflecting this yen weakness against a strong U.S. dollar. In July of 2010, Japan was hitting a 10 year high in its growth rate. The Bank of Japan is holding rates at .1% to fight deflation, and to support the fragile recovery.

USD/CHF SWISS FRANC ("Swissie"): This currency often acts as a reserve currency when money flows out of the U.S. dollar, and out of the Euro. The USD/CHF exhibits strong trends, and is partially backed by gold. Position plays in this currency are a favorite among traders.

GBP/USD: Similar in price action to the EUR/USD. GBP/USD often parallels the EURO, but it can diverge and give strong trading opportunities. It is also more volatile than the euros.

AUD/USD & USD/CAD: These currency pairs, reflect the strong commodity based resource economy of those nations (AUD-Australia; CAD-Canada). Gold prices and the CRB index can be a guide to their trends, with a direct correlation in price movement for AUD, and an inverse price movement relationship generally exists between the USD and gold.

GLOBAL ECONOMICS:

Currencies are a play on the economy of a country or region. Therefore, their valuations reflect important macro economic principles. The key economic principle is that money goes where it will gain a greater return.

If interest rates go up, a currency will tend to attract money flow to it.

If growth rate increases, a currency will get stronger.

If uncertainty prevails, currency values will increase in volatility - with prices moving up and down.

WEAK CURRENCIES STIMULATE EXPORTS:

A weak currency stimulates exporting. A country like Japan depends on U.S. Dollars, and needs more USD currency to come into that country. A weaker yen means Hondas are cheaper to U.S. buyers, thereby stimulating export sales for the benefit of Japan. A stronger yen will mean Hondas become more expensive in the U.S. with fewer sales, which hurts Japan’s economy.

Years ago, when the U.S. Dollar was extremely strong, U.S. citizens flew to Germany, purchased a Mercedes Benz, and shipped it to the USA, and still achieved savings!

Currencies Affect The Consumer:

A lower EUR/USD means cheaper European goods for U.S. citizens. A EURO moving to Parity and above, means cheaper U.S. goods for Europeans. But too strong a EUR/USD will raise fears of a reduction in purchasing from the U.S.! The European Central Bank may move to buy dollars to control the value of the Euro.

Currencies and Governments:

The global nature of currencies means it is difficult to manipulate the forex market.

Governments try to affect the value of their currencies by:

1. Increasing/decreasing interest rates in their countries.
2. Buying/selling their currencies; and
3. News manipulation - threatening government intervention to the press!

This has an effect on trader psychology and general sentiment.

The Effects of Exchange Rate Changes:

An exchange rate is the price of one foreign currency in terms of another currency. Foreign exchange rates are of particular concern to governments, because changes in FX rates affect the value of products and financial instruments. As a result, unexpected or large changes can affect the health of nations markets and financial systems.

Exchange rate changes also impact a nation's international investment flows, as well as export and import prices. These factors, in turn, can influence inflation and economic growth.

For example, suppose the price of the Japanese yen moves from 120 yen per dollar to 110 yen per dollar, over the course of a few weeks. In market parlance, the yen is "strengthening," or becoming more expensive, against the dollar.

If the new exchange rate persists, it will lead to several related effects. First, Japanese exports to the United States will become more expensive. Over time, this might cause export volumes to the United States to decline, which, in turn, might lead to job losses in Japan.

Also, the higher U.S. import prices might be an inflationary influence in the United States.

Finally, U.S. exports to Japan will become less expensive, which might lead to an increase in U.S. exports and a boost to U.S. employment.

Interest rate differentials between countries are one of the main factors that influence exchange rates. Money tends to flow into investments in countries with relatively high real (that is, inflation adjusted) interest rates, increasing the demand for the currencies of these countries and thereby, their value in the FX market.

Bank Analysis of Currencies Helps Traders Track Fundamentals:

Purchasing Power Parity (PPP) is a theory which states that exchange rates between currencies are in equilibrium when their purchasing power is the same in each of the two countries. This means that the exchange rate between two countries should equal the ratio of the two countries price level of a fixed basket of goods and services.

When a country's domestic price level is increasing, i.e. this country experiences inflation, that country's exchange rate must depreciate in order to return to PPP.

http://pacific.commerce.ubc.ca/xr/PPP.html

The Big Mac Index:

This index provides a very accurate picture of relative PPP for countries by comparing the price of a McDonald's Hamburger in different nations. In theory, the Big Mac should cost the same everywhere! When it doesn't, one of the currencies is overvalued! However, please DO NOT place your trades based upon the Big Mac Index.

Lesson 7: U.S. DOLLAR INDEX

An important fundamental factor in trading is the value of the U.S. DOLLAR INDEX (USDX). This index is a basket of currencies against the dollar. Watching its movement can be used to improve trading success, and pinpoint if the dollar is in a BULL trend or a BEAR trend, or simply in a sideways movement.

Here are some key Government Agencies and Economic Web Sites. Following up on Fundamentals can be achieved by reviewing these sites:

http://www.federalreserve.gov U.S. Dollar
http://www.boj.or.jp/en Japanese Yen
http://www.ecb.int Euro

Lesson 8: Technical Analysis

Understanding price movement and how to evaluate charts is the goal of technical analysis. The premise of Technical Analysis is:

1. Forex Market is not random.
2. Prices reflect all underlying factors.
3. Knowledge of charts gives traders an edge.

PRICE - TIME CHARTS:

In trading Forex, many charts are available covering different time frames. Each time frame provides important clues to changes in trend direction and momentum.

TIME:

MONTHLY: Big Picture of price action for long term trend traders (and “carry” trades).

WEEKLY: Still a big picture of prices for long term trend traders (and “carry” trades).

DAILY: Short and Mid-term “Swing Trading” trends are seen here.

HOURLY (1, 4) – Trade and check your “day trade” trends within these time periods. A good time frame to trade, as it is less volatile than lesser time frames below.

30 MINUTES – A good time frame to trade as a day trader and to check for trends.

15 MINUTES - A good time frame to trade as a day trader.

5 MINUTES - Also a time period to trade as a day trader, but not as good as 15, 30, and 60 minutes. Can also be used to place more accurate/timely entry and exit orders, when also trading from the 15 and 30 minute charts (and hourly charts).

1 MINUTE – Too much price action produces too many trades and less profits.

TIP: Use the 15, 30, and 60 minute time charts together to confirm trend direction(s) and “confluence” (similarities). This is exactly what expensive software trading packages do.

TYPES OF CHARTS:

LINE

BAR: See the bar chart in the Bollinger Band area below...

CANDLESTICKS: The visual favorite of most traders! See charts below…

POINT AND FIGURE

KAGI

RENKO

Lesson 9: PRICE MOVEMENTS

UP - Trend Trading.
DOWN - Trend Trading.
SIDEWAYS - Range Bound Trading.
CHANNEL - Up/Down/Sideways Trend with Range Bound Trading.
SURGES/SPIKES - News Events. Bank Intervention.

SUPPORT AND RESISTANCE:

When prices stop moving down, they have reached a level of support.

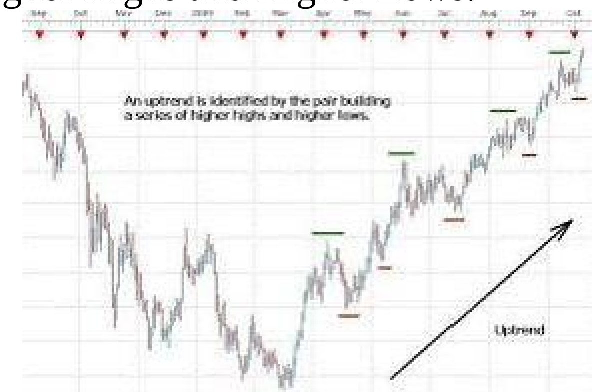
When prices stop moving up, they have reached a level of resistance.

Once you have picked Support and Resistance, you know “THE RANGE.” Support and Resistance lines are similar to “Pivots.” Most trading/dealing stations/desks, offer pre-configured support and resistance tools. A simple mouse “point-and-click” will bring these lines up automatically on your trading charts.

Lesson 10: Trend Lines

Trend Definition:

UP-TREND = Higher Highs and Higher Lows.



DOWN-TREND = Lower Highs and Lower Lows.

Trend lines can be Inner and Outer, and can also act as Support and Resistance, and price action “Pivot Point” areas.

Lesson 11: PATTERNS

Prices move in Patterns, and sometimes "break out" of those patterns. Each Pattern contributes to confirming a trading strategy. More details are offered in Volumes 2 and 3 for intermediate and advanced traders.

KEY PATTERNS:

Fibonacci Retracements (Most traders follow these retracement patterns.)

Elliot Wave Theory (Interesting, but, be careful, as this is sometimes VERY wrong!)

Head and Shoulders

Triangles

Wedges

Gann Lines (Cycles)

Flags and Pennants (Trend Lines in the shape of a flag or pennant. Good for signaling trend direction, as each shape points up or down.)

Price Channels (Trend Line Channels, Bollinger, Keltner.)

Time of Day (Such as trading hour over-laps, i.e. Asia, London, and New York.)

Day of Week (Economic reports - news!)

Lesson 12: TECHNICAL INDICATORS

Technical Indicators are used to quantify the price movements to determine, price momentum, trending tendencies, and to provide a basis for entering and closing a position. Technical Indicators help identify buying and selling opportunities. There are many different indicators (more charts and more in-depth discussions in Volumes 2 and 3 for “intermediate,” “advanced,” and “forex market wizards” forex trading concepts – search “Brian Ault” on www.Amazon.com).

Moving Averages (simple, exponential, weighted):

A moving average is a method of calculating the average value of a security’s price over a period of time. The term “moving” implies that the average changes or moves over time. The simple moving average gives equal weight to each price. An example of a 10, 20, 50 day simple moving average “cross-over” is below:

MA = (today’s close + yesterday’s close + day before yesterday’s close + [x number of days of total of average being calculated]) / 10 (“x”, or 20, or 50, etc.)

Variations of this calculation are also widespread. A weighted moving average is designed to put more weight on recent data and less on past data. The same but stronger effect is the exponential moving average, where the data is exponentially weighted.

Exponential moving averages are used in the MACD indicator.

Exponential moving averages show “real time” and current price action.

“Moving Average 2 line Cross-overs” - This is what “4x Made Easy” used in their old $3995 software years ago. They have since morphed completely into MB Trading as “Lightwave” for $99/month. There is still some over-priced software out there that basically uses this SAME concept, namely Tradertech/Vantagepoint “forecasting” software, but they charge you literally thousands for something you can get for FREE all day long on almost EVERY trading platform. They use a simple 10 and 20 period moving average cross-over. You just saved yourself from $99/month, and $3995, to up to $12,000 total! No kidding. There are NO magic decoder rings folks – DO NOT waste thousands of dollars for “magical” software!!

RSI:

The Relative Strength Index (RSI) is a popular oscillator used by traders. It was first introduced by J. Welles Wilder in an article in Commodities (now known as Futures) Magazine in June, 1978. Step by step instructions on calculating and interpreting the RSI are also provided in Mr. Wilder’s book, New Concepts in Technical Trading Systems. The RSI is a fairly simple formula, and there is a sample chart of RSI as used above with moving averages, and more advanced charts and RSI details follow in Volumes 2 and 3 for intermediate and advanced traders.

The basic formula is:

RSI=100 (100/(1+U/D))

Where:

U = An average of upward price change.

D = An average of downward price change.

When Wilder introduced the RSI, he recommended using a 14 day RSI. The

RSI is a price following oscillator that ranges between 0 and 100.

A popular method of analyzing the RSI is to look for a divergence in which the market is making a new high (or low), but the RSI is failing to surpass its previous high (or low). This divergence would be an indication of an impending reversal.

When the RSI then turns down and falls below its most recent trough, it is said to have completed a failure swing. The failure swing would be considered a confirmation of an impending reversal.

1. Tops and Bottoms: The RSI usually tops above 70 and bottoms below 30. The RSI usually forms these tops and bottoms before the underlying

price chart movement. When the RSI crosses through the 50 mark, it is also considered a Buy or Sell signal.

2. Chart Formations: The RSI often forms chart patterns (such as head and shoulders or rising wedges) that may or may not be visible on the price chart.

3. Failure Swings (also known as support or resistance penetrations or breakouts): This is where the RSI surpasses a previous high (peak), or falls below a recent low (trough).

4. Support and Resistance: The RSI shows, sometimes more clearly than the price chart, levels of support and resistance.

5. Divergence: As discussed above, this occurs when the price makes a new high (or low) that is not confirmed by a new RSI high (or low).

Momentum:

The Momentum indicator is the ratio of today's price compared to the price x periods ago:

Momentum = Close / (Close x time periods ago) * 100

The time period we are using is 10 days.

Interpretation:

Similar to the RSI, there are more ways to use Momentum, and three are explained here:

As a trend following oscillator: Buy when the indicator bottoms and turns up; and sell when the indicator peaks and turns down.

Trend recognition: Use this method in combination with other indicators.

Values below 100% are indicating that the price is making a downtrend, whereas, values above 100% are indicating an uptrend of the price.

Divergence: Occurs when the price makes a new high (or low) that is not confirmed by a new Momentum high (or low).

MACD Calculation:

The Moving Average Convergence/Divergence indicator (MACD) is calculated by subtracting the value of a 0.075 (26 day) exponential moving average from a 0.15 (12 day) exponential moving average (blue line). A 9 day exponential moving average of this MACD line is the red "signal" line. The MACD was developed by Gerald Appel, and is a favorite of most traders. More advanced details and charts on MACD follow in Volumes 2 and 3.

Interpretation:

The basic MACD trading rule is to sell when the MACD falls below its 9 day signal line. Similarly, a buy signal occurs when the MACD rises above its signal line. An indication that an end to the current trend may be near occurs when the MACD diverges from the security. A negative (positive) divergence occurs when prices are making new highs (or lows), while the MACD fails to reach new highs (or lows).

Bollinger Bands:

Sometimes prices appear to remain in a range for extended periods of time. A good way to describe this situation is to define a moving range around the prices.

Some people use an upper boundary and a lower boundary to define the range; the upper boundary is calculated as a moving average of a chosen period plus 5% of the price, and the lower boundary is the moving average minus 5%. These boundaries have the drawback of being too narrow to accommodate price levels when volatility is high, and too wide when volatility is low.

A better solution, recommended by John Bollinger, defines the upper boundary as a chosen moving average plus twice the corresponding standard deviation, with the lower boundary as the moving average minus twice the standard deviation. The method is described below.

The Bollinger Band includes 3 lines: the upper band, lower band, and the centerline. The centerline is simply the moving average, and the upper and lower bands are, respectively, the center line plus/minus twice the standard deviation, as seen in the bar chart below.

For a p period Bollinger band: Center Line = p period moving average

Upper Band = Center Line + 2 x Std Dev; Lower Band = Center Line   2 x Std Dev

Parabolic SAR:

If you are long (i.e. the price is above the SAR), the SAR will move up every day, supporting the direction the price is moving - up. The amount the SAR moves up, depends on the amount that prices move up.

The Parabolic SAR provides excellent stops. You should close long positions when the price falls below the SAR, and close short positions when the price rises above the SAR. Each SAR stop level point is displayed on the day in which it is in affect.

Note that the SAR value is today's, not tomorrow's stop level.

Explanation:

The Parabolic Time/Price System or SAR (stop and reversal), developed by J. Welles Wilder, is usually used to set trailing price stops. The parameters are specified at the time the indicator is plotted. As the quote makes new highs/lows, the Parabolic SAR will rise/fall according to the SAR step size, the acceleration factor.

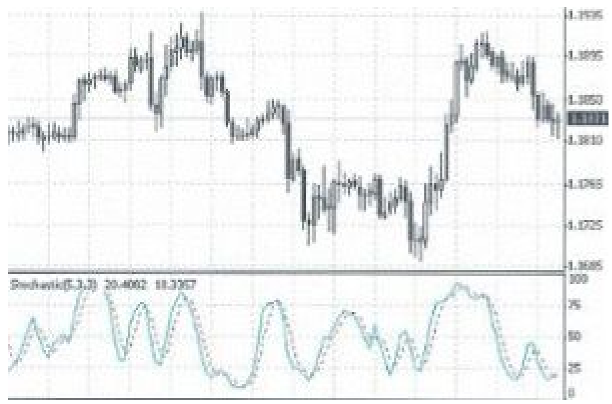
The standard value of this factor is 0.02, which is also used in standard charts. For example, if new highs (or lows) appeared for three consecutive periods, the SAR would "stop and reverse" in a new direction.

Stochastics:

The Stochastic oscillator compares where a price closed relative to its trading range over the last x time periods. The formula for the %K parameter of the Stochastic is: (today's close lowest low %K periods)/(highest high %K periods lowest low %K periods).

A moving average of %K is then calculated using the number of time periods you specified in the %D periods. This moving average is called %D. Finally, we multiply all stochastic values by 100 to change decimal values into percentages for better scaling (e.g., 0.375 is displayed as 37.5%).

The Stochastic oscillator always ranges between 0% and 100%. A reading of 0% shows that the security’s close was the lowest price that the security has traded during the preceding x time periods. A reading of 100% shows that the security’s close was the highest price that the security has traded during the preceding x time periods.



Interpretation:

Stochastic oscillators can be used as both short and intermediate term trading oscillators, depending on the number of time periods used when calculating the oscillator. When displaying a short term Stochastic oscillator (e.g. 5, 25 days), it is popular to slow the %K value by 3 days.

There are several ways to interpret a Stochastic oscillator. Three popular methods include:

1. Buy when the oscillator (either %K or %D) falls below a specific level (e.g. 20) and then rises above that level, and sell when the oscillator rises above a specific level (e.g. 80) and then falls below that level.

2. Buy when the %K (blue) line rises above the %D (red) line and sell when the %K line falls below the %D line.

3. Look for divergences. For example, where prices are making a series of new highs (or lows), and the Stochastic oscillator is failing to surpass its previous highs (or lows).

Lesson 13: TRADING STRATEGIES

Break Out Trades:

Price Breaks Through Resistance or Support (or Trend Lines) Strategy: Buy or Sell in Direction of “Break-out,” after price direction is confirmed.

Bounce Trades:

Price Fails to Break Through Resistance or Support (or Trend Lines), and “Bounces” the other way.

Strategy: Buy or Sell in Direction of Bounce, or within “trading range.”

Position vs. Day Trading:

The main difference is the requirement to hold a position overnight with position trading, which includes roll-over costs and increased risk exposure. Both position and day trading need the same technical analysis.

Trend following:

Use your exponential moving averages and systems, which come “onboard” with most trading stations, to place your trades WITH the price movements, or “trends.” A trend in price action may last 10-30 minutes, all day, all week, or for months.

Lesson 14: TYPES OF ORDERS

OPEN (enter): You are starting your position as a Buy or a Sell.
CLOSE (Liquidating): You are liquidating your position.
MARKET: Immediately executed.
STOP: If Market touches price stop, Order becomes Market Order.
There is no guarantee on the exact price that will be filled.

LIMIT: Order filled at a specific or better price. Buy limits will be filled at the limit order or below. They can not be filled higher. Sell orders will be filled at or above. They can not be filled lower.

OCO: ONE CANCELS OTHER.
GTC: Good 'Till Canceled.
Setting Stops:

Monetary Decision: A Cash/Pip objective for your target profit or risk level.

Most trading platforms will have "default" settings.

You may want to consider placing your stops 1-2 pips further away than the defaults allow, as there exists professional traders and some "market makers" who will purposely "take out" your stops, as they know where most traders place their stops, and this is how they make their money – by taking yours!

I seldom use physical stops because I don't want to be "stopped out" early. If I've made a bad trade, I'll exit quickly myself, without being stopped out. However, it would be a good idea for beginning traders to use physical stops, rather than mental stops - just give it some "breathing room."

Technical Decision:

For Buyers: Sell Stop at Previous Low, plus 1-2 extra added pips below low.

For Sellers: Buy Stop at Previous High, plus 1-2 extra added pips above high.

Lesson 15: KEY ACCOUNT TERMS

Balance: Amount held on the Customer's account, which can be changed depending on the Customer's performance in the market. Amendments are reflected on the balance only after a transaction is completed. Thus, the profit and loss open positions are not included in the balance.

Cash Settled: The closing out of currency contracts with the exchange of cash based upon the difference in the value of when the position was opened and the value of when it is closed, rather than the delivery of currency.

Cleared Funds: Funds unencumbered and freely available, sent in to settle a Trade.

Closed Position: Exposures in Foreign Currencies that no longer exist. The process of closing a position is the selling or buying a certain amount of currency to offset an equal amount of open positions. This will "square" the open position.

Confirmation: A notification sent by a dealer to the Customer describing the terms of a Trade.

Equity: Value of total positions marked to the market.

Filled Trade: A trade that is fully executed on behalf of a Customer's Account pursuant to an Order. Once filled, an Order cannot be cancelled, amended or waived by Customer.

Free Margin: Available funds in the client's account not currently being used to support existing trading positions, which can be used to open new positions.

Margin: The amount of cash or other Eligible Collateral that the broker requires a Customer to deposit or maintain in the Customer's Account in connection with the Customer's trading activity.

Margin Call: A demand for the deposit of additional Margin as described in Customer Agreement.

Order: Generally, an instruction by a Customer (or Customer's authorized agent) to the broker to attempt to execute a trade for Customer's Account.

Overnight Position: Trader's open long or short position that is not closed by the end of a trading day.

Roll-Overs: The process of extending an existing market position through one or more Spot Settlements.

Realized Profit/Loss: Value of positions after they are liquidated.

Storage: The charge or recompense associated with a roll-over.

Unrealized Profit/Loss: Value of open positions not yet liquidated.

Value Date: With respect to any contract, the applicable settlement date specified in the confirmation that relates to the particular contract. A Value Date must fall on a Business Day in the countries of the traded currencies.

A complete Glossary of Forex Terms is also listed below.

Lesson 16: Preparing to Trade

Key Steps for Trading:

1. Gain Knowledge.
2. Choose Forex Broker trading platform: Choose from www.FXCM.com, www.Oanda.com, www.GFTforex.com, www.IBFX.com, or www.Saxobank.com.
3. Scan and monitor the Markets.
4. Watch the news and economic calendar reports.
5. Choose your currency pair(s) to trade, i.e. EUR/USD currency pair.
6. Identify Trends (trend lines), Support and Resistance.

Identify Buying or Selling Opportunities using technical analysis. My favorite tools are correlating 2 Line Cross-over Exponential Moving Averages, with RSI, Fibonacci levels, Support/Resistance levels (and “Pivot Points”), and that confirm each other when prices move up/down, or trend/reverse. These tools and more will be discussed in deeper detail in my “Intermediate,” “Advanced,” and “Forex Market Wizards” forex trading Kindle ebooks on www.Amazon.com.

Your broker trading platform will already have these times/settings in their formulas. Most trading station platforms will have these values pre-set for you - FREE.

Place Trade with Limits and Stops, using your desired time chart(s) and prices.

Exit your trade to take your profits, or to limit your losses. STOP YOUR LOSSES QUICKLY! BE PATIENT, AND LET YOUR PROFITS RUN!! This game is not an area for the meek.

TEST YOUR KNOWLEDGE:

It’s time to open and trade your demo account to practice “paper trading” before you trade live and with “real money.” I have provided you with several trading companies in Lesson 16 above, and most platforms offer you free demos. There’s simply no need for you to pay hundreds or thousands of dollars for “stand-alone” trading software, especially in today’s competitive environment.

Most companies update their software platforms regularly with top notch trading tools, and they will prompt you, when a new version is available for download.

You only need one trading/dealing station to trade forex, but you can compare several against each other over time, to choose your best fit, if you wish to do so.

I have given you several top rated choices above to "demo" and trade "live," so you can choose the best company for you to trade forex successfully, online from your computer, and without having to call a broker on the phone or to see them in person.

Conclusion To Part 1 "Beginning Forex":

The Forex markets offer you unprecedented opportunities for trading successfully! The best way to be a successful forex trader is to have the right tools, and to continue your forex education and training. Some trading platforms include free trading basics and instructional materials. Others offer trading courses for a fee. Most are very basic, and some are better than others, and believe me, I've seen or bought almost all of them on a continuing basis (books too).

Believe it or not folks, forex trading is not rocket science. In fact, if you try to make it overly complex and difficult, you'll probably not do as well as you will do if you just keep it simple. Most top traders will confirm this "keep it simple" philosophy. Please make note of the fact that all forex traders must do certain things and perform certain tasks that are identical to every other forex trader:

1. Order Entry, entering/exiting trades: EVERYONE must use a trading platform to execute their trades at the SAME market prices at any given moment in time (on each particular platform). The only difference is simply the recommendation of which trading stations you use to place your trades. PIP spreads may also differ, especially if you are executing your trades through an "IB," or Introducing Broker agreement, who has introduced you to your trading/dealing station.

2. Charts: You need them to visually trade, and everyone uses them. A chart is a chart (some are better than others, some cost a fee, and some are free).

3. Technical Analysis: No single course or book invented technical analysis, and it's the same analysis and technical indicators no matter who's course you bought (hopefully, you paid less, rather than more, for your tools). The catch is to know WHICH tools to use.

4. Fundamentals: Parity is parity, value is value, whether I tell you, or you pay $2500 - $12,000 to someone else.

5. News: No one course has a lock on this trading tidbit, so why pay more for it?! News is news. Follow the news on Bloomberg, and on your trading platform for free.

6. Economic Calendars: Events and governmental reports will be the same no matter who you pay. If you buy 10 courses, you'll still end up with ONE economic calendar of events. Your trading platform will have an Economic Calendar for free.

I simply wish to give you confidence in knowing that Forex Trading is easier than you think, and that most all traders have and share common threads of information gathering and trade execution. I have sifted through and used a lot of information over the years, and at the end of the trading day, the important information is relatively the same, no matter who's book or course you're reading, who you're talking to, or who you're following. Again, the catch is to follow the RIGHT information – the information in my forex trading books!

Now that you have a good and general overview of forex trading for beginners, we will take the previous "beginning" concepts to a higher level of trading for you in my books for intermediate and advanced forex traders, including more detailed charts and deeper content.

To be complete and thorough for you right now, and to help satisfy your curiosity and trading needs, here is my favorite and most highly recommended forex trading course resource for your continuing education and consideration. Why? He mostly follows "Pivot Points" (you'll learn of these later) in his course materials and price/signal forecasting. He's also a forex trading veteran, who offers terrific forex information and ongoing support, all for a reasonable price, if you feel you need it.

Peter does what I simply do not have the time to do for you outside the scope of my books – ongoing support and daily, in-depth pivot point analysis (which is also a "coaching/mentoring" service, where I would charge you much more for it than he does – people have paid up to $4000 for my personal internet coaching in the past. I just don't have the time for it anymore). He's a bit more expensive than just a book. But, some folks need and want the long term and more personal approach, and there's nothing wrong with that approach, and there is everything right with the continuing education concept – you simply have to pay a little more for it...
www.Forex-Currency-Trader.com

Forex Trading Glossary

Ask (Offer) Price: Ask is the market selling price, the price at which the market is prepared to sell a specified Currency in a Foreign Exchange Contract or Cross Currency Contract. At this price, the trader can buy the base currency. In the quotation, it is shown on the right side of the quotation, for instance 1.4527 1.4532

Base Currency: The first currency in a Currency Pair. A currency against which the exchange rate is applied. Usually, it stands first in the codes of currency rates. It shows how much the base currency is worth as measured against the second currency. For instance, if the USD/CHF rate equals 1.6215, then one USD is worth CHF1.6215.

Bid Price: Bid is the market buying price, the price at which the market is prepared to buy a specified Currency in a Foreign Exchange Contract or Cross Currency Contract. At this price, the trader can sell foreign exchange. It is shown in the left side of the quotation, for example:1.4527 1.4532

Big Figure Quote: A currency rate without the last two digits. Examples: USD/JPY rate of 122.05/122.10, the big figure is 122. EUR/USD rate of 0.9325/0.9330, the big figure is 0.93.

Business Day: Any day on which commercial banks are open for business in the principal financial centers of the countries where Currencies are traded.

Cash Settled: The closing out of currency contracts with the exchange of cash based upon the difference in the value of when the position was opened and the value of when it is closed, rather than the delivery of currency.

Cleared Funds: Funds unencumbered and freely available, sent in to settle a Trade.

Closed Position: Exposures in Foreign Currencies that no longer exist. The process of closing a position is the selling or buying a certain amount of currency to offset an equal amount of open positions. This will “square” the open position.

Confirmation: A notification sent by a dealer to the Customer describing the terms of a Trade.

Counter Currency: The second listed Currency in a Currency Pair.

Cross Currency Pairs: A foreign exchange transaction in which one Foreign Currency is traded against a second Foreign Currency.

Cross Rate: An exchange rate between two non U.S. currencies.

6 “Majors” Currency Pair symbols trading with the USD:

AUD/USD Australian Dollar
USD/CAD Canadian Dollar
EUR/USD Euro
USD/JPY Japanese Yen
GBP/USD British Pound
USD/CHF Swiss Franc

Currency Trading: The act of exchanging the legal tender of one country for another.

Customer: The party that executes an Agreement with the broker.

Currency Pair: The two currencies that make up a foreign exchange rate. IE: USD/CHF.

Daily Cut-off: The point in time for each Business Day selected by the broker to signify the End of the Business Day.

Delivery Cut-off: The point in time that signifies the end of the Trade Date. The Trade Date of any Contract entered into after the Daily Cut off shall be the next Business Day.

Dollar Value: The amount of lawful currency of the United States which at any moment in time would be generated by the conversion of the relevant Foreign Currency into U.S. Dollars at the broker then prevailing exchange rates for buying or selling such Foreign Currency.

Eligible Foreign Currencies: Those Foreign Currencies which the broker, in its sole discretion, may agree from time to time to buy from or sell to its Customers.

Equity: The amount currently held in a customer’s account calculated as if all the opened positions will be closed at the current market quotes. The account is comprised of Unrealized gains, less Unrealized Losses and plus or minus storage.

Euro Zone: The group of twelve countries that have combined their currencies into a single currency (Euro). They still have separate sovereignties, but also have a combined central bank (ECB) which handles economic policy issues for them as one group.

Fair Market Value: The price for a financial instrument that is determined in an open market environment between a willing buyer and seller.

Filled Trade: A trade that is fully executed on behalf of a Customer's Account pursuant to an Order. Once filled, an Order cannot be cancelled, amended or waived by Customer.

Floating Profit (Loss): Unrealized profit (loss) in an open position.

Free Margin: Available funds in the client's account not currently being used to support existing trading positions, which can be used to open new positions.

Foreign Currency: The legal tender issued by and acceptable for the payment of obligations under the laws of one or more countries, other than the United States of America (if you are an American).

Foreign Exchange Contract: A Spot Contract for the purchase or sale of a Foreign Currency.

Foreign Exchange Rate: The price relationships between two currencies that are freely determined by the forces of supply and demand.

Foreign Exchange Trading: Buying and selling Foreign currencies.

Fundamental Analysis: Analysis based on economic and political factors.

Gross Basis: Open Positions, calculated without the benefit of any netting between Long and Short Positions.

"GTC Order" or "Good Till Canceled Order": A trade Order placed for a specific amount of time to buy or sell a foreign currency.

Initial Margin Requirement or Opening Margin Requirement: The minimum Margin required to establish a new Open Position.

Leverage: The ratio of the amount used in a transaction to the required security deposit (margin).

Limit Order: An order to buy or sell Foreign Currency, or pairs of Currencies, at a specified price or exchange rate. A Limit Order to buy generally will be executed when the ask price equals or falls below the price or exchange rate specified in the Limit Order. A Limit Order to sell generally will be executed when the bid price equals or exceeds the price or exchange rate specified in the Limit Order. Customers should note, however, that market conditions may often prevent execution of an individual Customer's Limit Order despite other dealing activity at that price level.

Liquidating Order: An Order to close out one or more Open Positions.

Long Position: In foreign exchange trading, when the base currency in the pair is bought, the position is said to be long in that currency. It is understood that when the base currency in the pair is ‘long’, the second currency will be ‘short’.

Loss: Loss incurred as a result of a transaction.

Lot: A unit to measure the amount of the deal. The value of the deal always corresponds to an integer number of lots.

Margin: The amount of cash or other Eligible Collateral that the broker requires a Customer to deposit or maintain in the Customer’s Account in connection with the Customer’s trading activity.

Margin Call: A demand for the deposit of additional Margin as described in Customer Agreement.

Market Order: An order to buy or sell the identified currency, or pairs of currencies, at the current market price. An order to buy is executed at the ask price; and order to sell is executed at the bid price.

Market Rate/Quote: The current quote of a currency pair.

Market Value: The Dollar Value, determined by the current foreign exchange rates that the Customer would receive if the position were liquidated for immediate delivery in the relevant market.

Mark to Market: The process of recalculating the value of the Open Positions in a Foreign Currency trading Account, assuming all Open Positions were liquidated at current market rates.

Maturity: The date on which payment of a financial obligation is due.

Notice of Withdrawal: A request by Customer to withdraw funds from Customer’s Account.

Offer (Ask): See Ask (Offer) Price.

“One Cancels the Other Order” or “OCO Order”: Two Orders that are linked. If one Order is executed, the other is cancelled.

Open Position: Any deal that has not been offset by an equal and opposite deal.

Overnight Position: Trader’s open long or short position that is not closed by the end of a trading day.

Opening Transaction: An order that, when executed, establishes a Long Position or Short Position, or increases an existing position.

Order: Generally, an instruction by a Customer (or Customer’s authorized agent) to the broker to attempt to execute a trade for Customer’s Account.

Overnight Position: Trader's open long or short position that is not closed by the end of a trading day.

Pip/Point: Percentage in Point or Price Interval Point - the smallest unit of price for any Foreign Currency (e.g., for USD/CHF one point (or pip) equals .0001 Swiss Francs, and for USD/JPY one point (or pip) equals 0.01 Japanese Yen).

Posted Margin: That part of the Margin Balance that is posted to the broker in support of the Customer's Open Position and Unrealized Losses.

Profit / Loss or "P/L" or Gain/Loss: The actual gain or loss in U.S. Dollars resulting from trading activities on Closed Positions, plus the theoretical gain or loss on Open Positions that have been Marked to Market.

Quote: A simultaneous bid and offer in a currency pair.

Realized Gain/Loss: The actual gain or loss resulting from closing an Open Position.

Short Margin: The client's account condition when Equity becomes smaller than the amount required to keep the positions open.

Short Position: Selling a currency in which you have no position in anticipation of it falling in value. At that point you will be able to "cover" your short by buying back the currency at a lower price. (If physical delivery of the currency is involved, the short seller will need to borrow the currency in order to make the delivery to the buyer). In foreign exchange, when the base currency in the pair is sold, the position is said to be short in that currency. It is understood that when the base currency in the pair is "short," the second currency will be "long."

Spot Contract: A Contract where settlement is in two Business Days.

Spot Rate: The rate of exchange between two Foreign Currencies for "Spot" value (normally settlement in two Business Days), generally quoted either in "U.S. Terms" (price of one unit of Foreign Currency expressed in U.S. Dollars and Cents) or in "European Terms" (price of one U.S. Dollar expressed in units and decimals of the Foreign Currency).

Roll-Overs: The process of extending an existing market position through one or more Spot Settlements.

Spread: The difference between the ask (offer) and bid price in a market quote. The spread is the reason why a newly opened position's mark to market, or valuation, will likely be negative. If a trader buys a particular currency she will pay the ask (offer) price, but the current mark to market will be based upon what the marketplace is presently paying for this currency. That price would be found on the bid side of the market quote, 5 pips lower than where she just bought the currency.

Stop/Loss Order: An order to buy or sell at a specified Foreign Exchange Rate away from the current market for the purpose of liquidating an Open Position during market conditions in which the Open Position has declined in value. Execution of such an order can occur at rates below (or above) the specified Foreign Exchange Rate.

Storage: The charge or recompense associated with a roll-over.

Technical Analysis: Analysis of market price action. Technical analysis studies historical price changes with the aim to forecast future price movements. By studying price charts and a host of supporting technical indicators, we in effect let the market tell us which way it is most likely to trend. The whole purpose of charting the price action of a market is to identify trends in the early stages of their development and then trade in the direction of those trends. One of the two types of analysis used to analyze the currency market.

Trade Date: With respect to any Contract, the date on which the Contract is entered into between the broker and Customer, except in the case of any Contract entered into after the Daily Cut off following, but before the next relevant Business Day, in which case the Trade Date shall be the next following Business Day.

Unrealized Gain/Loss: The theoretical gain or loss on Open Positions valued at current market rates, as determined by the broker in its sole discretion. Unrealized Gains/losses become Profits/Losses when position is closed.

Used Margin: The amount in the client’s account required to support all the current positions.

Value Date: With respect to any contract, the applicable settlement date specified in the confirmation that relates to the particular contract. A Value Date must fall on a Business Day in the countries of the traded currencies.

END of “How To Become A Successful Forex Trader”
Volume 1: A Beginner’s Guide To Forex Trading Profit$

Volume 2: An Intermediate's Guide To Forex Trading Profit$ - Chapter 1: Forex "InterBank" Currencies

You will often hear the term *"INTER-BANK"* discussed in FX "spot or cash markets" terminology. This originally, as the name implies, was simply banks and large institutions exchanging information about the current rate at which their clients or themselves were prepared to buy or sell a currency. INTER meaning between, and BANK meaning deposit taking institutions normally made up of banks, large financial institutions, brokers or even the government.

Forex "futures" have been trading on the CME – "Chicago Mercantile Exchange" since 1972. CME then launched its electronic "Globex" trading platform in 1992. NYBOT – The "New York Board Of Trade" trades the <u>USDX</u>, or "U.S. Dollar Index" futures, which acts as a good gauge of the value of the U.S. Dollar against a basket of major currencies. Forex "Futures" contracts differ in their quoting mechanisms i.e. a "spot" quote for the pair USD/JPY would be "110 Yen" <u>per Dollar</u>, and in the "futures" market, it would be quoted as to the Yens <u>value as compared to the Dollar</u>, or .009091 (.9 of a penny), or simply "9091". Almost all other technical and fundamental information herein, can be equally applied to trading "spot" or "futures" currencies.

The forex "cash" market has progressed to such a degree, that the term interbank now means anybody who is prepared to buy or sell a currency. It could be two individuals or your local travel agent offering to exchange Euros for U.S. Dollars. You will, however, find that most of the brokers and banks use centralized feeds to insure reliability of quote. The quotes for Bid (buy) and Offer (sell) will all be from reliable sources. These quotes are normally made up of the top 300 or so large institutions. This insures that if they place an order on your behalf that the institutions they have placed the order with is capable of fulfilling the order.

Now although we have spoken about orders being fulfilled, it is estimated that up to 95% of the FX market is speculative. In other words, the person or institution that bought or sold the currency has no intention of actually taking delivery of the currency. Instead, they were solely speculating on the movement of that particular currency.

About 86% of all currencies are traded against the U.S. Dollar. The four next most traded currencies are the Euro (EUR), Japanese Yen (JPY), Pound Sterling (GBP) and Swiss Franc (CHF). As currencies are traded in pairs and exchanged one for the other when traded, the rate at which they are exchanged is called the exchange rate. These four currencies traded against the U.S. Dollar make up the majority of the market, and are called major currencies, or the "majors." *The **EUR/USD** accounts for approximately 28% of total daily turn-over in the "spot" forex market. This is a highly liquid currency pair, and a favorite trading pair for many forex traders. (USD/JPY is 17% of total; GBP/USD is 12% of total.)*

Roughly 80% of forex trades last only 7 days, with approximately 40% of trades lasting only 2 days or less. (Source: Bank For International Settlements www.bis.org. From The Triennial Central Bank Survey of Foreign Exchange and Derivatives Market Activity.)

Chapter 2: Rollovers & Interest

Even though the U.S. dominates many markets, most of Spot Forex volume is traded through London in Great Britain (U.K. is 36% - U.S. is 14% - Japan and Singapore are 6% each approximately). So for our next description we shall use London time. Most deals in Forex are done as Spot deals. Spot deals are nearly always due for settlement two business days day later. This is referred to as the value date or delivery date. On that date the counter-parties take delivery of the currency they have sold or bought.

In "Spot" FX, the majority of the time the end of the business day is 21:59 (London time). Any positions still open at this time are automatically *"rolled over"* to the next business day, which again finishes at 21:59. This is necessary to avoid the actual delivery of the currency.

As Spot FX is predominantly speculative most of the time the trades never wish to actually take delivery of the actual currency. They will instruct the brokerage to always rollover their position. Many of the brokers nowadays do this automatically and it will be in their policies and procedures. The act of rolling the currency pair over is known as "tom.next" which, stands for tomorrow and the next day.

Let me explain this a little more. You sell (go short) USD/JPY, and as such are short USD and your broker will automatically rollover your position, unless you instruct him that you actually want delivery of the currency. Another point noting is that most leveraged accounts are unable to actually deliver the currency, as there is insufficient capital there to cover the transaction.

Remember that if you are trading on margin, you have, in effect, a loan from your broker for the amount you are trading. If you had a 1 lot position your broker has advanced you the $100,000 considering you may have only had a fraction of that amount on deposit. The broker will normally charge you the interest differential between the two currencies if you rollover your position. This normally only happens if you have rolled over the position, and not if you open and close the position within the same business day.

To calculate the broker's interest he will normally close your position at the end of the business day, and again re-open a new position almost simultaneously. You open a 1 lot ($100,000) EUR/USD position on Monday 15th at 11:00 at an exchange rate of 0.9950. During the day the rate fluctuates and at 22:00 the rate is 0.9975. The broker closes your position and re-opens a new position with a different value date. The new position was opened at 0.9976, a 1 pip difference. The 1 pip difference reflects the difference in interest rates between the U.S. Dollar and the Euro.

As an example, let's say you're long Euro and short U.S. Dollar. If the U.S. Dollar has a higher interest rate than the Euro, you pay the premium of 1 pip.

Now the good news. If you had the reverse position, and you were short Euros and long U.S. Dollars, you would gain the interest differential of 1 pip.

So, if the first named currency has an overnight interest rate lower than the second currency, then you will pay that interest differential if you bought that currency. If the first named currency has a higher interest rate than the second currency, then you will gain the interest differential.

To simplify and restate the above. If you are long (bought) a particular currency, and that currency has a higher overnight interest rate, you will gain. If you are short (sold) the currency, with a higher overnight interest rate, then you will lose/pay the difference. I would like to emphasis here, that although we are going a little in-depth to explain how all this works, for your understanding, your broker will calculate all this for you.

Chapter 3: Accounts & Balances

Although the movement today is towards all transactions eventually finishing in a profit and loss in U.S. Dollars it is important to realize that your profit or loss may not actually be in U.S. Dollars. From my observation the trend is more pronounced in the U.S. as you would expect. Most US based traders assume they will see their balance at the end of each day in US Dollars. I have even spoken with some traders who are oblivious to the fact that their profit might have actually been in Japanese Yen.

Go "Long" - (bought) JPY. You enter the trade at 116.10 and exit 116.90. You in fact made 80,000 Japanese Yen (1 lot traded) not U.S. Dollars. If you traded all four major currencies against the U.S. Dollar you would in fact have gained or lost in EUR, GPY, JPY and CHF. This might give you a ledger balance at the end of the day or month with four different currencies. This is common in London. They will stay in that currency, until you instruct your broker to exchange the currency in which you have a profit or loss, into your own base currency.

This can work for you or against you depending on the rate of exchange when you change back into your home currency. Now that you know this, simply instruct your broker to change your profit or loss into U.S. Dollars when you close your positions. It is worth checking to see how your broker approaches this, and to simply ask them how they handle it.

It's a fact that for many years the spot forex market largely remained unregulated. Even today there are many countries that still don't regulate companies that trade forex. London has been regulated for many years, and the U.S. is now getting its act together, and has also started regulating companies dealing in spot forex. In your free reports section, I'll list several reputable forex brokers for you to "demo."

This is from the National Futures Association (NFA), dated April 13, 2009: "New Compliance Rule 2-43(b) requires an FDM to offset positions in a customer account on a first-in, first-out basis, thereby prohibiting a trading practice commonly referred to as hedging."

While the Commodity Futures Trading Commission (CFTC) has proposed limiting leverage to 10:1, you may have noticed that 200:1 leverage is still available outside the U.S. The CFTC's proposal is the equivalent of putting a 15-mile-per-hour speed limit on a superhighway, and many U.S. traders have responded by simply moving their accounts to the U.K. affiliates of U.S. brokers.

Effective November 30, 2009, they will be requiring U.S. based retail forex brokers to cap available leverage at 100:1**.** To quote the notice to members:

"…beginning on November 30, 2009, all FDMs must collect a customer security deposit of at least 1% for the currencies listed in Section 12 and at least 4% for all other currencies."

The Section 12 currencies are the majors and some of the big European regional ones: British pound (GBP), the Swiss franc (CHF), the Canadian dollar (CAD), the Japanese yen (JPY), the Euro (EUR), the Australian dollar (AUD), the New Zealand dollar (NZD), the Swedish krona (SEK), the Norwegian krone (NOK), and the Danish krone (DKK). The U.S. dollar (USD) is not specifically listed, but obviously it's included.

UPDATE: The CFTC has now limited Forex leverage to 50:1, effective October 18, 2010. A 2% security deposit is required for the major currency pairs, and a 5% security deposit is required for all other currency pairs. The NFA will enforce these new rules. The CFTC, based on the Dodd-Frank Wall Street Reform and Consumer Protection Act, will also limit retail forex trading access to non-U.S. dealers.

Chapter 4: Statements

Before we move on to account statements I just want to touch on segregation of funds. In times past there was a danger that traders who deposited money with their broker who did not segregate their clients money from their own companies money were at some risk.

The problem arose if the broker misused the deposited funds to either reinvest or otherwise manipulated these deposits to enhance their own standing. There were also instances were the broker became insolvent and many complications ensued as to what was the clients money and what was the broker's money. With the advent of regulation most brokers now segregate their client's funds from the brokerage funds. Deposits are normally held with banks or other large financial institution that are also regulated and bonded or insured. This protects your money should anything happen to your broker. The deposit taking institution is normally aware that these deposits are client's funds.

Depending on regulation in the particular country you live, each client may have their own segregated account or for smaller depositors they may be pooled. The point is that segregation of funds is a safeguard. Ask your broker if your funds are segregated and who actually has your money.

Just as with a bank you should be entitled to interest on the money you have on deposit. Some brokers may stipulate that interest is only payable on accounts over a certain amount, but the trend today is that you will earn interest on any amount you have that is not being used to cover your margin. Your broker is probably not the most competitive place to earn interest but that should not be the point of having your money with him in the first place. Interest on the funds in your account and segregation of funds all go to show the credibility of the broker with whom you are dealing.

In this section, I will discuss briefly the basic account statement. I have to keep this basic as there are as many flavors of account statements as you can imagine. Just about every broker has their own way of presenting this. The most important thing is to know where you stand at the end of each day or week. Just because your broker is internet based and has all the bells and whistles does not mean they are infallible. Many of the actions taken before information is imputed are still done by hand and if humans are involved there will be a mistake at some point. The responsibility lies with you. It is your money, so make sure that all the transactions are reconciled correctly.

A **statement** contains the following basic information in various formats:

FX Firm
New York
Statement for: Mr. Joe Forex Trader
Statement Date: January 1, 2010
Account No: 123456
Summary Of All Trades From: 12/01/09-1/01/10 Ticket
No Time Trade
Date
Value
Date
B/S
Symbol Quantity Rate Debit Credit Balance
123458 09:05 12/07/2009 12/07/2009
B EUR/USD 100,000 0.9850 $10,000
123459 13:01 12/08/2009 12/08/2009
S EUR/USD 100,000 0.9870 $200.00 $10,200
123460 14:05 12/10/2009 12/12/2009
S USD/JPY 100,000.00 116.85 $10,200
Total Equity $10,200
Margin Available $9,200
Margin Requirements $1,000
Current Position Short USD/JPY

Normally, there is a ticket or docket number to help identify the trade. You will nearly always find the time and date of the trade. You should always see the direction of the trade, buy or sell (Long or Short), the amount and rate at which you bought or sold, and the balance to let you know if you made a profit or a loss. You should also see any open positions you may have, and the margin requirements for that position, if any. A lot of the more modern systems will show your open position as though it has been closed, just to give you an up-to-the-minute balance.

Chapter 5: The Main Forex “Players”

Central Banks And Governments

Policies that are implemented by governments and central banks can play a major role in the FX market. Central banks can play an important part in controlling the country’s money supply to insure financial stability.

Banks

A large part of FX turnover is from banks. Large banks can literally trade billions of dollars daily. This can take the form of a service to their customers, or they themselves speculate on the FX market.

Hedge Funds

As we know, the FX market can be extremely liquid which is why it can be desirable to trade. Hedge Funds have increasingly allocated portions of their portfolios to speculate on the FX market. Another advantage Hedge Funds can utilize is a much higher degree of leverage than would typically be found in the equity markets.

Corporate Businesses

The FX market mainstay is that of international trade. Many companies have to import or exports goods to different countries all around the world. Payment for these goods and services may be made and received in different currencies. Many billions of dollars are exchanged daily to facilitate trade. The timing of those transactions can dramatically affect a company’s balance sheet.

The Man And Woman On The Street

The man in the street also plays a part in the FX world. Every time he goes on holiday overseas, he normally need to purchase that country’s currency, and again change it back into his own currency, once he returns. Unwittingly, he is in fact trading currencies. He may also purchase goods and services while overseas, and his credit card company has to convert those sales back into his base currency in order to charge him.

Speculators And Investors

We shall differentiate speculators from investors here, with the definition that an investor has a much longer time horizon, in which he expects his investment to yield a profit. Regardless of the difference, both speculators and investors will approach the FX market with the same profit motive.

What’s Next?

Well, now we have a basic understanding of how the FX market works and who the main players are, what next? You are now going to have to decide the best way to trade the market. The two most common approaches are that of fundamental analysis and technical analysis.

Fundamental analysis concentrates on the forces of supply and demand for a given security. This approach examines all the factors that determine the price of a security and the real value of that security. This is referred to as the intrinsic value. If the intrinsic value is below the market price, then there is an opportunity to buy, and if the market is above the intrinsic price, then there is an opportunity to sell.

Technical analysis is the study of market price action, mainly through the use of charts and indicators, to forecast the future price of a currency. There are three main points that a technical analyst applies:

Market "price action" discounts everything. Regardless of what the news, sentiment, and fundamentals are saying, the price you see is the price you get. ***THE PRICE IS WHAT THE PRICE IS AT THAT VERY MOMENT!***

The price of a given currency pair moves in patterns and trends.

The historical chart patterns and trends of a currency pair will tend to "cycle" and repeat.

The tools of the technical analyst are indicator **"signals,"** chart patterns, and trading systems. These tools are applied to charts. Moving averages, support and resistance lines, Bollinger bands, and momentum are all examples of indicators. There are many more tools, and these tools of the forex trader, will generally come pre-configured on most trading station platforms.

General categories of "technical analysis":

Indicators (Oscillators, i.e. Stochastics and Relative Strength Index - RSI)

Number theory (Fibonacci numbers, Gann numbers)

Waves (Elliott wave theory)

Gaps (High-Low, Open-Closing)

Trends (Following Moving Averages and Trend Lines up/down)

Chart formations (Triangles, Head & Shoulders, Channels)

There are many "tools" for each method, but fundamental and technical analysis are the two main methods of trading forex. Most traders prefer technical analysis over fundamental analysis, because technical analysis already factors in the fundamentals in the current price action of the currency pairs.

Now let's discuss the most important technical rules, time frames, indicators, oscillators, and chart patterns that will help you make money trading forex. This will save you countless hours, and prevent you from wasting your time and money, testing dozens of other indicators that don't work as well as the ones that follow.

Also, please remember that your forex broker's trading platform does all the calculating and chart plotting for you, as far as your indicators and oscillators are concerned. *The calculations below are for your understanding of how they work.*

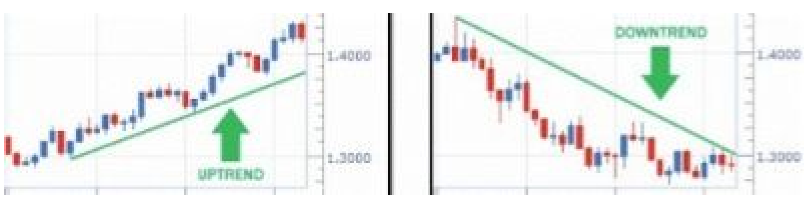
Chapter 6: 10 Important Rules of Technical Trading

1. Map the Trends

Study long-term charts. Begin a chart analysis with monthly and weekly charts spanning several years. A larger scale “map of the market” provides more visibility and a better long-term perspective on a market, so you can see the forrest and lake north of the trees. Once the long-term has been established, then consult daily and intra-day hourly and minute charts. A short-term market view alone can often be deceptive. Even if you only trade the very short term, you will do better if you’re trading in the same direction as the intermediate and longer term trends.

2. Spot the Trend and Go <u>WITH</u> It!

Determine the trend and follow it. Market trends come in many sizes—long-term, intermediate-term and short-term. First, determine which one you’re going to trade and use the appropriate chart. Make sure you trade in the direction of that trend. Buy dips if the trend is up. Sell rallies if the trend is down. If you’re trading the intermediate trend, use daily and weekly charts. If you’re day trading, use daily and intra-day hourly and minute charts. But in each case, let the longer range chart determine the trend, and then use the shorter term chart for timing.



3. Find the Low and High of It

Find support and resistance levels. The best place to buy a market is near support levels. That support is usually a previous reaction low. The best place to sell a market is near resistance levels. Resistance is usually a previous peak. After a resistance peak has been broken, it will usually provide support on subsequent pullbacks. In other words, the old “high” becomes the new “low.” In the same way, when a support level has been broken, it will usually produce selling on subsequent rallies—the old “low” can become the new “high.”

4. Know How Far to Back-track

Measure percentage retracements. Market corrections up or down usually retrace a significant portion of the previous trend. You can measure the corrections in an existing trend in simple percentages. A fifty percent retracement of a prior trend is most common. A minimum retracement is usually one-third of the prior trend. The maximum retracement is usually two-thirds. *Fibonacci retracements* of 38%, 50%, and 62% are also worth watching. During a pullback in an uptrend, therefore, initial buy points are in the 38% to 50% retracement areas.

5. Draw the Line

Draw trend lines. Trend lines are one of the simplest and most effective charting tools. All you need is a straight edge and two points on the chart. Up trend lines are drawn along two successive lows. Down trend lines are drawn along two successive peaks. Prices will often pull back to trend lines before resuming their trend. The breaking of trend lines usually signals a change in trend. A valid trend line should be touched at least three times. The longer a trend line has been in effect, and the more times it has been tested, the more important it becomes.

6. Follow that Average

Follow moving averages. Moving averages provide objective buy and sell signals. They tell you if existing trend is still in motion and help confirm a trend change. Moving averages do not tell you in advance, however, that a trend change is imminent. A combination chart of two moving averages is the most popular way of finding trading signals. Some popular combinations are 5 and 10 day moving averages, 10 and 20 day, 21 and 50 day. Signals are given when the shorter average line crosses the longer. Price crossings above and below a 50 day moving average also provide good mid-term trading signals. Since moving average chart lines are trend following indicators, they work best in a trending market. The 200 moving average is used for long-term trading trends.

7. Learn the Turns

Track oscillators. Oscillators help identify overbought and oversold markets. While moving averages offer confirmation of a market trend change, oscillators often help warn us in advance that a market has rallied or fallen too far and will soon turn. Two of the most popular are the Relative Strength Index (RSI) and Stochastics. They both work on a scale of 0 to 100. With the RSI, readings over 70 are overbought while readings below 30 are oversold. The overbought and oversold values for Stochastics are 80 and 20. Most traders use 14 days or weeks for Stochastics and either 9 or 14 days or weeks for RSI. Oscillator divergences often warn of market turns. These tools work best in a trading market range. Weekly signals can be used as filters on daily signals. Daily signals can be used as filters for intra-day charts.

8. Know the Warning Signs

Trade MACD; The Moving Average Convergence Divergence (MACD) indicator (developed by Gerald Appel), which combines a moving average crossover system with the overbought/oversold elements of an oscillator. A buy signal occurs when the faster line crosses above the slower and both lines are below zero. A sell signal takes place when the faster line crosses below the slower from above the zero line. Weekly signals take precedence over daily signals. An MACD histogram plots the difference between the two lines and gives even earlier warnings of trend changes. It's called a "histogram" because vertical bars are used to show the difference between the two lines on the chart.

9. Trend or Not a Trend

Use ADX. The Average Directional Movement Index (ADX) line helps determine whether a market is in a trending or a range trading phase. It measures the degree of trend or direction in the market. A rising ADX line suggests the presence of a strong trend. A falling ADX line suggests the presence of a trading market and the absence of a trend. A rising ADX line favors moving averages; a falling ADX favors oscillators. By plotting the direction of the ADX line, the trader is able to determine which trading style and which set of indicators are most suitable for the current market environment.

10. Know the Confirming Signs

Use a combination of 2 or 3 indicators and signals to confirm your trade entries and exits.

Technical analysis is a skill that improves with experience and study. Always be a student and keep learning through actual trading experience. Try to keep it as simple as possible.

Technical Analysis Pitfalls...When It WON'T Work As Well!

Technical analysis will not work so well when fundamental factors or economic data become the main focus of the market, as participants become sensitive to any “news” developments, and pricing and indicators become highly volatile and harder to interpret.

News Releases

With speculation mounting on the possible outcomes, fundamental news releases like U.S. non-farm payrolls have created situations in the market that do not adhere to technical analysis as volume and volatility spikes. Although the aftermath more than not will once again adhere, the mass speculation that ensues makes sure that traders are scrapping for the best price available in filling their positions, rather than applying your every day moving average or price oscillator.

Central Bank Intervention

Central bank intervention can also throw a “monkey wrench” into the best technical analysis. The Bank of Japan serves as an excellent example. When the Bank of Japan intervenes, the main objective is to not only adjust spot prices but also to make sure speculators are flushed out. As a result, bank officials will place entries in unlikely levels, thereby ultimately establishing a support or resistance level. Once intervention efforts are spotted, volatility spikes, as speculators will attempt to capture a momentum trade, and others will attempt to exit at the best price available.

Chapter 7: Trading Charts: What Time Frames Work Best In Forex?

Intraday Trading

Intraday traders will usually hold positions intraday, or during the same day for both entries and exits. In this instance, they will refer to 5 minute and 15 minute charts, as well as 30 minute and hourly charts. *(Inter-day* traders hold positions from day to day.)

Swing Trading

Swing traders, who tend to take their positions and hold for several hours to approximately 4 days, will usually refer to hourly, daily, and weekly time frames in placing their positions.

Position or Long-Term Interday Trading

Position or longer term *interday* traders, will refer to daily, weekly, and monthly charts. The weekly and monthly charts will establish the longer term perspective, and assist you in placing entries/exits in the shorter term daily charts. They tend to hold positions for longer than 1 day, and for as long as a couple of months to a year, depending upon the length of the trend.

Using Multiple Time Frames & Screens

Another key time frame consideration has to do with a time screen. Here the trader will refer to a triple or double screen. Considering the former, the trader will rely on the daily for the longer term perspective, while establishing a similar pattern in the intermediate (hourly chart) and short term (15-30 minutes). If all three frames line up for a short opportunity, the trader will more than likely attempt to capture the shortfall and place a sell. In the event of the double screen, the trader is simply considering one time frame, daily, in establishing the entry in the short term, hourly.

Understanding price movement and how to evaluate charts is the goal of technical analysis. The premise of Technical Analysis is:

1. Forex Market is not random.
2. Prices reflect all underlying factors.
3. Knowledge of charts gives traders an edge.

PRICE - TIME CHARTS:

In trading Forex, many charts are available covering different time frames. Each time frame provides important clues to changes in trend direction and momentum.

TIME:

MONTHLY: Big Picture of price action for long term trend traders (and “carry” trades).

WEEKLY: Still a big picture of prices for long term trend traders (and “carry” trades).

DAILY: Short and Mid-term “Swing Trading” trends are seen here.

HOURLY (1, 4) – Trade and check your “day trade” trends within these time periods. A good time frame to trade, as it is less volatile than lesser time frames below.

30 MINUTES – A good time frame to trade as a day trader and to check for trends.

15 MINUTES - A good time frame to trade as a day trader.

5 MINUTES - Also a time period to trade as a day trader, but not as good as 15, 30, and 60 minutes. Can also be used to place more accurate/timely entry and exit orders, when also trading from the 15 and 30 minute charts (and hourly charts).

1 MINUTE – Too much price action produces too many trades and less profits.

TIP: Use the 15, 30, and 60 minute time charts together to confirm trend direction(s) and “confluence” (similarities). This is exactly what expensive software trading packages do.

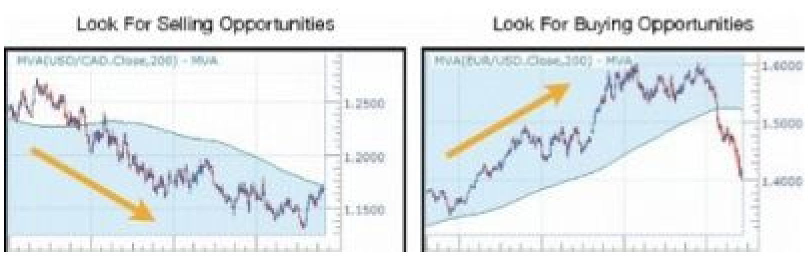
Most of us are not trading the daily chart, but we can use the longer-term charts to find *powerful trends* and Fibonacci levels (and for “carry trades”). I choose 60-minutes because it clearly shows when support and resistance has materialized, and the hourly time chart is generally less volatile. You may prefer 30 minute, or 5-15 minute charts, or a combination of time periods to visualize confluence. Practice makes you perfect (almost).

Chapter 8: Trading Charts: The 6 Most Popular Indicators/Oscillators Used In Forex Trading

Moving Averages

Moving Averages are one of the most popular and easy to use tools available to the technical analyst. By using an average of prices, moving averages smooth a data series and make it easier to spot trends. This can be especially helpful in volatile markets.

A moving average (MA) is an average of data for a certain number of time periods. It “moves” because for each calculation, we use the latest x number of time periods data. **There are two major types of Moving Averages: “Simple” and “Exponential”**



Simple Moving Average

A simple moving average (SMA) is formed by finding the average price of a currency or commodity over a set number of periods. Most often, the closing price is used to compute the moving average. For example: a 5-day moving average would be calculated by adding the closing prices for the last 5 days and dividing the total by 5.

As new days are added, the old days will be subtracted and the moving average will continue to move over time.

Moving averages are lagging indicators and will always be “behind” the price. Because moving averages are lagging indicators, they fit into the category of trend following. When prices are trending, moving averages work well. However, when prices are not trending, moving averages do not generate buy/sell signals as well or as accurately.

Exponential Moving Average

In order to reduce the lag in simple moving averages, technicians sometimes use exponential moving averages, or exponentially weighted moving averages. Exponential moving averages reduce the lag by applying more weight to recent prices relative to older prices. The weighting applied to the most recent price depends on the length of the moving average. The shorter the exponential moving average is, the more weight that will be applied to the most recent price. For example: a 10-period exponential moving average weighs the most recent price 18.18%, and a 20-period exponential moving average weighs the most recent price 9.52%.

The method for calculating the exponential moving average is fairly complicated. The important thing to remember is that the exponential moving average puts more weight on recent prices. As such, it will react quicker to recent price changes than a simple moving average. For those who wish to see an example formula for an exponential moving average, one is provided below. Others may prefer to skip this section and move on the comparison of the moving averages.

Exponential Moving Average Calculation

The formula for an exponential moving average is:

$X = (K \times (C - P)) + P$

X = Current EMA

C = Current Price

P = Previous period's EMA*

K = Smoothing constant

(*A SMA is used for first period's calculation)

The smoothing constant applies the appropriate weighting to the most recent price relative to the previous exponential moving average. The formula for the smoothing constant is:

$K = 2/(1+N)$

N = Number of periods for EMA

For a 10-period EMA, the smoothing constant would be .1818.

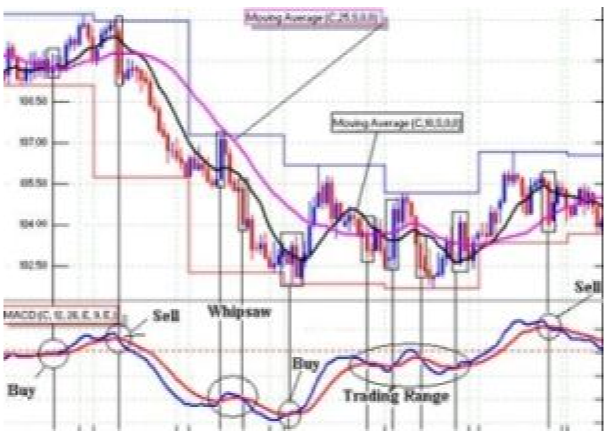
The EMA formula works by weighting the difference between the current period's price and the previous period's EMA and adding the result to the previous period's EMA. There are two possible outcomes: the weighted difference is either positive or negative.

If the current price is higher than the previous period's EMA (P), the difference will be positive (C - P). The positive difference is weighted by multiplying it by the constant ((C - P) x K) and the answer is added to the previous period's EMA, resulting in a new EMA that is higher ((C - P) x K) + P.

If the current price is lower than the previous period's EMA, the difference will be negative (C - P). The negative difference is weighted by multiplying it by the constant ((C - P) x K) and the final result is added to the previous period's EMA, resulting in a new EMA that is lower ((C - P) x K) + P.

Moving Average Convergence/Divergence (MACD)

The MACD is one of the most popular signal generators used by currency traders. This is a momentum indicator can be used to confirm trends, while also indicating reversals, or overbought/oversold conditions. The MACD is calculated by taking the difference between the 2 exponential moving averages, and a 9-day EMA of the difference is plotted against it to trigger buy or sell signal. The two that are usually used are the 26-day and 12-day moving averages.



How can MACD be used for trading?

Crossovers

The most common way to use the MACD is to buy/sell a currency pair when it crosses the signal line or zero. A sell signal occurs when the MACD falls below the signal line, while a buy signal occurs when the MACD rallies above the signal line.

Overbought/Oversold

The MACD can also be used as an overbought/oversold indicator. When the shorter moving average moves away significantly from the longer moving average (i.e., the MACD rises), it is likely that the currency price's movements are starting to exhaust and will soon return to more realistic levels.

Divergences

When the MACD diverges from the trend of the currency price, this may signal a trend reversal. In addition, if the MACD makes a new low while the currency pair does not also make a new low, this is a bearish divergence, indicating a possible oversold condition. Alternatively, if the MACD is making new highs while the currency pair fails to confirm these highs, this is a bullish divergence, indicating a possible overbought condition.

***In sum*, there are three parameters in MACD:**

MACD line - the difference between the 12 and 26 period EMA

Signal line - the 9 day EMA of the MACD line

Histogram - a visual representation of the difference between the MACD line and the signal line.

Stochastics

The stochastic oscillator is a commonly used momentum indicator that measures the current currency price compared to its historical price for a given time period. It looks to gage the strength and momentum of a currency pair's price action by measuring the degree by which a currency is overbought or oversold. The scale for the indicator is 0 to 100. Readings above 80 indicate overbought conditions, as it reflects the fact that the currency is strong and the price is closing near the high of the trading range. Readings below 20 indicate oversold conditions and reflects the fact that the currency is weak and is closing near the low of the trading range.

How can Stochastics be used for trading?

Detect Overbought and Oversold Conditions

The most common way to analyze Stochastics is to sell when the reading is above 80, which implies overbought conditions and to buy when the reading is below 20, which implies oversold conditions.

Divergence

Buy and sell signals can also be given when Stochastics show divergence, indicating a possible trend reversal. Divergence occurs when the stochastic values are moving in one direction and the price values are moving in the opposite direction.

The signals are most reliable if you wait until the %K and %D lines turn upward below 5% before buying, and the lines turn downward above 95% before selling.

Uses of a Stochastics to generate trading signals:

1. Divergence between the price action and stochastic can indicate that a trend change may follow

2. When the stochastic moves from extreme levels and than moves above the 20% level, may indicate that the price is about to trend higher

3. Alert to buy is confirmed when the lines move above 50%

4. During an uptrend, once you see stochastic fall below the 80%, you may want to consider closing your long positions.

5. Once the stochastic fell below 80% and than below the 50% levels, this would offer a sell signal.

6. When the faster %K line crosses above the slower %D line and the lines are below 20, a buy signal is generated

7. When the %K lines crosses below the %D line and the lines are above 80 a sell signal is generated

As I have often said, just relying on one indicator, as a means of generating an entry or exit signal is very dangerous, you must look for a confluence of indicators to confirm the entry/exit signals. By having this confluence, it will mean that the losing trades are minimized. This is the sole reason why I tend to have a high percentage of winning trades – over 70%. I am quite happy not to trade if there is no signal.

I am looking for an iron-clad trade. Often, I could go few days without a trade, but that does not bother me. My golden rule is: No signal – No Trade!

Just because there is a crossover of the stochastic line does not mean that you have an iron-clad trade. I often find many traders use just one indicator and then lose! They blame the indicator and not themselves. If it were so easy, then most traders would not lose!

One of my favorite signals is to trade the stochastic divergence. When I see a divergence between a price and divergence in the indicator itself, and this is followed by a cross-over of lines, then you often have a winner.

Different types of divergence:

1. Bearish - The price moves higher, but stochastic suggests a slowing trend. You will see higher price highs and lower stochastic highs, and is a sure sign that a price correction is not far off.

2. Bullish - The lower lows in price action show a divergence with higher stochastic lows. As stochastic shows the market becoming less oversold, the market itself fails to confirm this notion and continues on down. However, this is just indicative that price will invariably shift course and follow the Stochastics lead.

3. Bullish - In a down trending market, changes in price establish lower price highs, all the while stochastic reflects the market becoming less oversold (higher stochastic highs), signaling a likely reversal in the works.

4. Bullish- As price achieves higher lows, stochastic reflects a last ditch effort on the part of sellers to continue the downtrend (lower stochastic lows). This exhaustion, combined with new buying pressure, as reflected in upward price direction, portends the potential reversal of the downtrend.

You can apply these observations to any time frame. Sometimes, a particular time frame will display one of the above characteristics more so than the others. The higher the time frame, the better the chance for a longer-term trend reversal. It is important when looking at lesser time frame charts to keep the big picture in mind. A divergence between price behavior and stochastic movement on a five-minute chart may provide only a relatively short period of change in the price action.

Relative Strength Index (RSI)

The relative strength index or RSI is probably the most popular oscillator used by the FX trading community. It was developed by J. Welles Wilder Jr. to gauge the strength or momentum of a currency pair. This indicator is calculated by comparing a currency pair's current performance against its past performance, or its up days versus its down days. RSI is on a scale of 1-100, where any point above 70 is considered overbought, while any point below 30 is considered oversold. The standard time frame for this measure is 14 periods, although 9 and 25 periods are also commonly used. Generally, more periods tend to yield more accurate the data.

How Can RSI be Used for Trading?

RSI Can be Used to Identify Extreme Conditions or Reversals.

RSI above 70 is considered overbought and indicating a sell signal. RSI below 30 is considered oversold which would imply a buy signal. Some traders identify the long-term trend and then use extreme readings for entry points. If the long-term trend is bullish, then oversold readings could represent potential entry points.

RSI Can be Used to Indicate Divergence

Trade opportunities can also be generated by scanning for positive and negative divergences between the RSI and the underlying currency pair. For example, a falling currency pair where RSI rises from a low point of 15 back up to 50. With RSI, the underlying pair will often reverse its direction soon after such a divergence. Consistent with this example, divergence that occurs after an overbought or oversold reading, usually provides more reliable signals.

Wilder discusses 5 uses of RSI in his book.

Tops and Bottoms

These are indicated when the reading goes above 70 (top) and below 30 (bottom).

Chart Formations

The RSI may form chart formations that may or may not appear on the actual bar chart e.g. you might see a head and shoulders formation on the RSI but not on the bar chart.

Failure Swings

When the RSI goes above 70 or below 30 this is a strong indication that the market is ready for a reversal.

Support and Resistance

It is sometimes more apparent that support or resistance is forming in the RSI, than can be seen on the bar chart.

Divergence

When price makes a new high or low, and this is not confirmed by the RSI, this can be a very strong indication that a reversal is imminent.

My Use of RSI

My own favorite use of RSI is that of divergence. When the security you are trading makes a new high, and the RSI turns down, that is bearish divergence.

The same is true of bullish divergence. When price makes a new low, and the RSI turns up, that is bullish divergence.

I also prefer to see divergence at major tops and bottoms. That is to say, if we have been in an up trend for some time, and I am already thinking this might be topping and I see divergence, then I am a lot more confident that it has, in fact topped, and vice versa.

I don’t like to use RSI as a sole trigger for a new position, but rather, I like to use it in combination with other indicators to help build a full picture. You will notice that in most cases of divergence, the currency might make a high reflected on the RSI reading, but then the RSI will start to decline as the currency makes another higher high. This is bearish divergence.

Bollinger Bands

Bollinger bands are very similar to moving averages. The bands are plotted at two standard deviations above or below the moving average. This is typically based off of the simple moving average, but an exponential moving average can be used to increase the sensitivity of the indicator. A 20-day simple moving average is recommended for the center band and 2 standard deviations for the outer bands. The length of the moving average and number of deviations can be altered to better suit trader preferences and volatility of a currency pair. In addition to identifying relative price levels and volatility, Bollinger bands can be combined with price action and other indicators to generate signals and be a precursor to significant moves.

How can Bollinger Bands be Used for Trading?

Bollinger bands are typically used by traders to detect extreme unsustainable price moves, capture changes in trend, identify support/resistance levels and spot contractions/expansions in volatility. There are a number of ways to interpret Bollinger Bands.

Breakouts

Some traders believe that when the prices break above or below the upper or lower band, it is an indication that a breakout is occurring. These traders will then take a position in the direction of the breakout.

Overbought/Oversold Indicators

Alternatively, some traders use Bollinger Bands as an overbought and oversold indicator. As shown in the chart below, when the price touches the top of the band, traders will sell, assuming that the currency pair is overbought and will want to revert back to mean or the middle moving average band. If the price touches the bottom of the band, traders will buy the currency pair, assuming that it is oversold and will rally back towards the top of the band. The spacing or width of the band is dependent on the volatility of the prices.

Typically, the higher the volatility, the wider the band and the lower the volatility, the narrower the band.

The 15 Rules of Bollinger Bands:

Bollinger Bands provide a relative definition of high and low.

That relative definition can be used to compare price action and indicator to arrive at rigorous buy and sell decisions.

Appropriate indicators can be derived from momentum, volume, sentiment, open interest, inter-market data, etc.

Volatility and trend have already been deployed in the construction of Bollinger Bands, so their use for confirmation of price action is not recommended.

The indicators used for confirmation should not be directly related to one another. Two indicators from the same category do not increase confirmation.

Bollinger Bands can also be used to clarify pure price patterns such as M-type; tops and W-type bottoms, momentum shifts, etc.

Price can, and does, walk up the upper Bollinger Band and down the lower Bollinger Band.

Closes outside the Bollinger Bands can be continuation signals, not reversal signals—as is demonstrated by the use of Bollinger Bands in some very successful volatility-breakout systems.

The default parameters of 20 periods for the moving average and standard deviation calculations, and two standard deviations for the bandwidth are just that, defaults. The actual parameters needed for any given market/task may be different.

The average deployed should not be the best one for crossovers. Rather, it should be descriptive of the intermediate-term trend.

If the average is lengthened the number of standard deviations needs to be increased simultaneously; from 2 at 20 periods, to 2.1 at 50 periods. Likewise, if the average is shortened the number of standard deviations should be reduced; from 2 at 20 periods, to 1.9 at 10 periods.

Bollinger Bands are based upon a simple moving average. This is because a simple moving average is used in the standard deviation calculation and we wish to be logically consistent.

Be careful about making statistical assumptions based on the use of the Standard deviation calculation in the construction of the bands. The sample size in most deployments of Bollinger Bands is too small for statistical significance and the distributions involved are rarely normal.

Indicators can be normalized with %b, eliminating fixed thresholds in the process.

Finally, tags of the bands are just that, tags not signals. A tag of the Upper Bollinger Band is NOT in-and-of-itself a sell signal. A tag of the lower Bollinger Band is NOT in-and-of-itself a buy signal.

Why Successful Traders Use <u>Fibonacci</u> – The "Golden Ratio"

Support and resistance levels on charts are a major component in the study of technical analysis. Many traders, including myself, use support and resistance levels to identify entry and exit points when trading. When determining support and resistance levels on charts, one should not overlook the key Fibonacci percentage "retracement" levels. I will detail specific Fibonacci percentages in this section, but first I think it's important to examine how those numbers were derived, and by whom.

Leonardo Fibonacci da Pisa was a famous 13th century mathematician. He helped introduce European countries to the decimal system, including the positioning of zero as the first digit in the number scale. Fibonacci also discovered a number sequence called "the Fibonacci sequence." That sequence is as follows: 1, 1, 2, 3, 5, 8, 13, 21, 34, and so on to infinity. Adding the two previous numbers in the sequence comes up with the next number.

Numerator/ Denominator	1	2	3	5	8	13	21	34	55	89	144	233	$N_{n+1} = N_n + N_{n-1}$
1	1	2	3	5	8	13	21	34	55	89	144	233	...
2	0,500	1	1,500	2,500	4,000	6,500	10,500	17,000	27,500	44,500	72,000	116,500	...
3	0,333	0,667	1	1,667	2,667	4,333	7,000	11,333	18,333	29,667	48,000	77,667	...
5	0,200	0,400	0,600	1	1,600	2,600	4,200	6,800	11,000	17,800	28,800	46,600	...
8	0,125	0,250	0,375	0,625	1	1,625	2,625	4,250	6,875	11,125	18,000	29,125	...
13	0,077	0,154	0,231	0,385	0,615	1	1,615	2,615	4,231	6,846	11,077	17,923	...
21	0,048	0,095	0,143	0,238	0,381	0,619	1	1,619	2,619	4,238	6,857	11,095	...
34	0,029	0,059	0,088	0,147	0,235	0,382	0,618	1	1,618	2,618	4,235	6,853	...
55	0,018	0,036	0,055	0,091	0,145	0,236	0,382	0,618	1	1,618	2,618	4,236	...
89	0,011	0,022	0,034	0,056	0,090	0,146	0,236	0,382	0,618	1	1,618	2,618	...
144	0,007	0,014	0,021	0,035	0,056	0,090	0,146	0,236	0,382	0,618	1	1,618	...
233	0,004	0,009	0,013	0,021	0,034	0,056	0,090	0,146	0,236	0,382	0,618	1	...
$N_{n+1} = N_n + N_{n-1}$	...	...	...	...	...	...	...	...	...	...	...	...	1

Ratios of Fibonacci

Importantly, after the first several numbers in the Fibonacci sequence, the ratio of any number to the next higher number is approximately .618, and the next lower number is 1.618. These two figures (.618 and 1.618) are known as the Golden Ratio or Golden Mean. Its proportions are pleasing to the human eyes and ears. It appears throughout biology, art, music and architecture. Here are just a few examples of shapes that are based on the Golden Ratio: playing cards, sunflowers, snail shells, the galaxies of outer space, hurricanes and even DNA molecules. William Hoffer, in the Smithsonian Magazine, wrote in 1975: "The continual occurrence of

Fibonacci numbers and the Golden Spiral in nature explain precisely why the proportion of .618034 to 1 is so pleasing in art. Man can see the image of life in art that is based on the Golden Mean."

Three Fibonacci percentage retracement levels that are most important in market analysis are 38.2%, 50%, and 62.8%. Most market technicians will track a "retracement" of a price uptrend from its beginning to its most recent peak. Other important retracement percentages include 75% and 33%. For example, if a price trend starts at zero, peaks at 100, and then declines to 50, it would be a 50% retracement. The same levels can be applied to a market that is in a downtrend, and then experiences an upside retracement "correction."

The element I find most fascinating about Fibonacci numbers, the Golden Ratio and the Elliott Wave principle, as they are applied to technical analysis of markets—and the reason I am sharing this information with you—is that these principles are a reflection of human nature and human behavior.

The longer I am in this business, and the more I study the behavior of markets, the more I realize human behavior patterns and market price movement patterns are deeply related, even to the point of becoming a "self-fulfilling prophecy," due to most traders watching and using the same trading tools and indicators, thus, "making it happen," especially in relation to Fibonacci levels.

High Probability Trading

Even traders with limited experience start to realize that we are not trying to capture every market move. We want to improve our odds and reduce our frustration, by filtering for higher-probability trades.

The combination of trend and Fibonacci techniques can provide powerful signals for higher probability trading. We already know that trend-lines have some validity, and so do Fibonacci levels. Combine the two to improve your chances.

In a down-trend we want to short those swing highs, and take profits on swing lows. We don't want to short every time we "think" we have a swing high. If you have tried that, you know about whip-saw and fake-outs already. We only want the best trades, those which are more likely to succeed. So how do we choose an optimum entry point?

Our odds are improved if we have a swing high near a down-sloping trend-line. Markets tend to reverse at Fibonacci levels. So if we have a significant resistance level near a trend-line we have an even better chance of success.

If you are new to Fibonacci, those ratios look like a confusing series of colored lines. Learning how to use these Fibonacci ratios, and which of them are stronger (higher probability), is really easy!

That "SK Resistance" level, coinciding with a trend-line, is an optimum selling zone. If the market reaches that area (we can't be sure it will), and if the market resists there, we want to take a short position. Once the resistance materializes, it will be difficult for the market to move against us. The opposite would be true to buy at the support ratio levels.

Most of us are not trading the daily chart, but we can use the longer-term charts to find *powerful trends* and Fibonacci levels. I choose 60-minutes because it clearly shows when support and resistance have materialized, and the hourly time chart is generally less volatile. You may prefer 30 minute, or 5-15 minute charts, or a combination of time periods. Practice makes you perfect (almost).

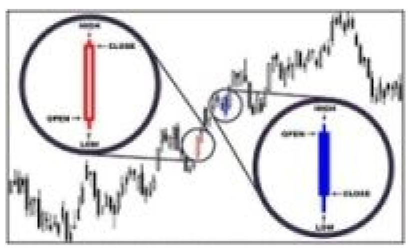
Chapter 9: 4 More Powerful Technical Indicators, Including "The Secret Of Floor Traders"

Candlesticks

Where do Candlesticks Come From?

In the 1600s, the Japanese developed a method of technical analysis to analyze the price of rice contracts. This technique is called candlestick charting. Candlestick charts are simply a new way of looking at price; they don't involve any calculations.

What do Candlesticks Look Like?



Candlestick charts are much more visually appealing than a standard two-dimensional bar chart. As in a standard bar chart, there are four elements necessary to construct a candlestick chart, the OPEN, HIGH, LOW and CLOSING price for a given time period.

The body of the candlestick is called the real body, and represents the range between the open and closing prices.

A black or filled-in body represents that the close during that time period was lower than the open, (normally considered bearish) and when the body is open or white, that means the close was higher than the open (normally bullish).

The thin vertical line above and/or below the real body is called the upper/lower shadow, representing the high/low price extremes for the period (one period of time measures the duration of selling or buying within the market). As a trader, you can use any time period you want, time intervals may be a 1 minute, 5 minute, 15 minute, 30 minute, 1 hour, 4 hour, daily, weekly, or monthly.

Key Candlestick Reversal Patterns:

Many traders look to charts for double tops and bottoms, head-and-shoulders, and technical indicators for reversal signals, so too can candlestick formations be looked upon for the same purpose. A reversal does not always mean that the current uptrend/downtrend will reverse direction, but merely that the current direction may end.

The market may then decide to drift sideways. Candlestick reversal patterns must be viewed within the context of prior activity to be effective. In fact, identical candlesticks may have different meanings depending on where they occur within the context of prior trends and formations.

Hammer—a candlestick with a long lower shadow and small real body. The shadow should be at least twice the length of the real body, and there should be no or very little upper shadow. The body may be either black or white, but the key is that this candlestick must occur within the context of a downtrend to be considered a hammer. The market may be "hammering" out a bottom.

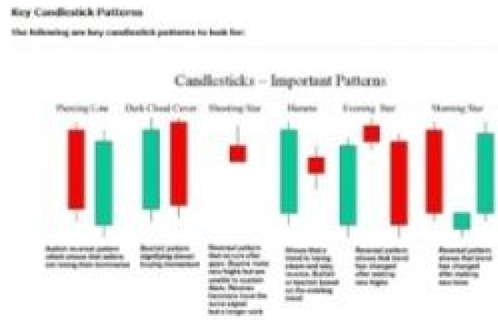
Hanging Man—identical in appearance to the hammer, but appears within the context of an uptrend.

Engulfing Patterns—Bullish—when a white, real body totally covers, "engulfs" the prior day's real body. The market should be in a definable trend, not chopping around sideways. The shadows of the prior candlestick do not need to be engulfed.

Bearish—when a black, real bear's body totally covers and "engulfs" in the area of the prior day's real body. The market should be in a definable trend, not chopping around sideways. The shadows of the prior candlestick do not need to be engulfed.

Dark-Cloud Cover (bearish) -- a top reversal formation, where the first day of the pattern consists of a strong white, real body. The second day's price opens above the top of the upper shadow of the prior candlestick, but the close is at or near the low of the day, and well into the prior white, real body.

Piercing Pattern (bullish) -- opposite of the dark-cloud cover. Occurs within a downtrend. The first candlestick having a black, real body, and the second has a long, white, real body. The white day opens sharply lower, under the low of the prior black day. Then, prices close above the 50% point of the prior day's black real body.



The Candlestick "Stars"

These candlestick formations consist of a small real body that gaps away from the real body preceding it. The real body of the star should not overlap the prior real body. The color of the star is not too important, and they can occur at either tops or bottoms. Stars are the equivalent of gaps on standard bar charts.

Stars make up part of four separate *Reversal Patterns*:

Morning Star
Evening Star
Doji Star
Shooting Star (Inverted Hammer)

Morning Star—this is a bullish bottom reversal pattern. The formation is comprised of 3 candlesticks. The first candlestick is a tall black real body followed by the second, a small real body, which gaps (opens), lower (a star pattern). The third candlestick is a white real body that moves well into the first period's black real body. This is similar to an island pattern on standard bar charts.

Evening Star—a bearish top reversal pattern and counterpart to the Morning Star. Three candlesticks compose the evening star, the first being long and white. The second forms a star, followed by the third, which has a black real body that moves sharply into the first white candlestick.

Doji Stars—When a doji gaps above a real body in an uptrend, or gaps under a real body in a falling market, that particular doji is called a doji star. Two popular doji stars are the evening star and the morning star.

Evening Doji Star—a doji star in an uptrend followed by a long, black real body that closed well into the prior white real body. If the candlestick after the doji star is white and gapped higher, the bearishness of the doji is invalidated.

Morning Doji Star—a doji star in a downtrend followed by a long, white real body that closes well into the prior black real body. If the candlestick after the doji star is black and gapped lower, the bullishness of the doji is invalidated.

Shooting Star—a small real body near the lower end of the trading range, with a long upper shadow. The color of the body is not critical. Not usually considered a major reversal sign, only a warning.

Inverted Hammer—not really a star, but does look like a shooting star. When occurring within a downtrend, may be a turning signal. Body color is not critical.

Final Thoughts on Candlesticks

It is important to realize that this introduction is just that, an introduction to candlestick analysis. After having read this, you will have merely scratched the surface of the many patterns and variables that can go into candlestick analysis. And although this does not provide you with a thorough analysis of each and every pattern, it does provide you with the most common candlestick pattern formations that are important for your trade confirmations.

Steve Nison completely explains candlesticks and their formations, but more importantly, he explains how to combine candlestick analysis with traditional technical analysis, to produce higher probability trades. It is highly recommended that you consider purchasing his books. Do a search on Amazon using his name for a list of his books.

As traders, we need as many trading tools in our arsenal, and a basic knowledge of candlesticks provides a trader much needed ammunition. Also remember that no matter what the trading tool, no matter how advanced or ancient, it is only effective when put into practice properly. This is, of course, your job as the trader.

Your forex trading platform(s) will automatically chart your candlesticks for you.

Pivot Points: The <u>"Secret of Pro Forex & Floor Traders!"</u>

I like to think of trading as nothing more than simply the process of weighing all the relevant information at hand, finding the next probable direction of the market, and then waiting for the movement where the appropriate trade provides us the highest possible reward for the least amount of relative risk.

The technical indicator used simply gives us another clue to the multi-dimensional relationship between the buyers and sellers over a given period of time. With this in mind, we may opt to use a common technical indicator known as **"Pivot Points."** These horizontal lines are simply a formula calculating the previous days high, low, and closing price, which are plotted as 3 support and resistance levels, typically found on daily, weekly, or monthly charts (you can also use minute and hourly charts).

These lines, like any technical indicator, simply provide us with a possible price level, at which the market may establish its next support or resistance level.

Traders may choose to anticipate current price ranges to continue, placing their faith in Pivot Points. There is no way to know ahead of time, with total certainty, if the market will act as we believe it may. However, through the use of Pivot Points and other technical indicators, our probabilities of success grow in our favor, and will surely help us in the long-run.

Remember that there is a very high probability that price action will "pivot" off of support and resistance levels, as well as pivot point levels, offering you very good "reversal" trades.

Make sure you are following your current "trends," as there exists the possibility of "break out" trades as well.

Not all trading platforms include pivot point indicators. Most platforms have "drawing" tools, which will allow you to plot your pivots horizontally on your charts. Remember also to plot your current "daily" pivots based upon the previous day's currency pair close, using the first "x" time period chart prices AFTER 5:00 p.m. EST.

Daily pivots are calculated from the previous day's high, low, close (which ends at 5 p.m. EST, or 21:00 p.m. GMT). 4 Hour pivots are calculated from the previous 4 hour's bar (or candlestick), which ends at 21:00, 1:00, 5:00, 9:00, 13:00, & 17:00 GMT. Hourly pivots are calculated from the previous hourly bar. 1 and 4 hour charts are for your intraday trading pivots, and you can use all of the above to establish a confluence of pivot points.

The actual pivot point calculation is what is used as the basis in the CCI or "Commodity Channel Index," and even in Bollinger Bands. Pivot point analysis is a famous technique that is used as a price forecasting method for day traders and professional traders as well. It is very popular among professional traders in every market, including forex, futures, and stocks.

There are numerous advisory services, brokerage firms and independent traders that use one form of it or another. **<u>Secret pro forex and floor trader's numbers</u>**, support and resistance levels, price range forecasting tactics, pin-pointing tops and bottoms, and target trading, are some of the terms that are used to refer to it as well.

For most traders on the floor of the exchanges, it is considered common knowledge or old school. Most novice traders, and even most brokers are not familiar with this formula. I believe that most inexperienced investors have a hard time with incorporating this technique into their trading "tool box," due to the time it takes to calculate the numbers. But make no mistake, the professionals look at it, and so should you. **Most good trading platforms will calculate your pivot points for you, or will provide a pivot calculator.**

In order to determine the current pivot point support and resistance levels in your own excel file, the first step is to find the pivot point number, and then use that in the four calculations:

PP = (H + L + C)/3

The first resistance level(R1)=(PPx2)-L

The second resistance level (R2)=PP+H-L

The first support level (S1)=(PPx2)-
H

The second support level (S2)=PP-H+L

You can see it is a detailed but easy formula. Consider the pivot point as the average of the previous sessions trading range combined with the closing price. The numbers of support and resistance that are calculated, indicate the potential ranges for the next time frame based on the past weight of the markets strength or weakness derived from the calculations of the high, low and distance from the close of those points.

Pivot point analysis is also used for identifying breakout points from the support and resistance numbers. The previous sessions trading range could be based and calculated for an hour, a day, a week, or a month. You could also calculate a third resistance and support level. Most platforms will have pre-calculated pivots for you.

Historical Euro Data

The results since the inception of the euro (January 1, 1999, with the first trading day on January 4, 1999):

The actual low is, on average, 1 pip below Support 1
The actual high is, on average, 1 pip below Resistance 1
The actual low is, on average, 53 pips above Support 2
The actual high is, on average, 53 pips below Resistance 2
The actual low is, on average, 158 pips above Support 3
The actual high is, on average, 159 pips below Resistance 3

Please note: At this time, May of 2010 through August 2011, we are seeing tremendous volatility with the Euro (and globally), and many Europeans are fleeing to gold and silver, due to the current crisis in Greece, and mounting troubles everywhere else. The numbers above do not reflect this current crisis, as it's not yet finished. Make sure your calculations are current and accurate and in your present time.

Judging Probabilities

The statistics indicate that the calculated pivot points of S1 and R1 are a decent gauge for the actual high and low of the trading day.

Going a step further, we calculated the number of days that the low was lower than each S1, S2 and S3, and the number of days that the high was higher than the each R1, R2, and R3.

The result - there have been 2026 trading days since the inception of the Euro, as of October 12, 2006, when these calculations were made.

The actual low has been lower than S1 892 times, or 44% of the time
The actual high has been higher than R1 853 times, or 42% of the time
The actual low has been lower than S2 342 times, or 17% of the time
The actual high has been higher than R2 354 times, or 17% of the time
The actual low has been lower than S3 63 times, or 3% of the time
The actual high has been higher than R3 52 times, or 3% of the time

This information is useful to a trader; if you know that the pair slips below S1 44% of the time, you can place a stop below S1 with confidence, understanding that probability is on your side. Additionally, you may want to take profits just below R1, because you know that the high for the day exceeds R1 only 42% of the time. Again, the probabilities are with you.

It is important to understand, however, that theses are probabilities and not certain, especially factoring in today's volatility in the Euro, due to the crisis in Greece (5-2010).

On average, the high is 1 pip below R1 and exceeds R1 42% of the time. This neither means that the high will exceed R1 four days out of the next 10, nor that the high is always going to be 1 pip below R1. The power in this information lies in the fact that you can confidently gauge potential support and resistance ahead of time, have reference points to place stops and limits, and most importantly, limit risk while putting yourself in a position to profit, using higher probability pivot point trading.

I've bought and read most forex trading courses and books, and I continually educate myself about the markets (and so should you), by keeping up to date with them, even pre-ordering books on Amazon up to 4 months in advance of actual publish dates. I have yet to see anyone employ and teach the use of pivot points as well and as thoroughly as Peter Bain at www.Forex-Currency-Trader.com

As I mentioned before, Peter also provides you with pivot calculations and analysis on a daily basis, and he provides you with exceptional and continuing forex trading support and materials. John Person is also noteworthy with his use and teaching of pivot points. Both men are discussed further in Volume 4: Forex Market Wizard's Guide To Forex Trading Profit$. (Pivot Points are used equally well by professional traders in all markets, especially in the forex, futures, and stock markets.)

To add even more credibility to Pivot Points, and to further emphasize the importance of Pivots, I have included an email from a **professional floor trader**, in its entirety, dated 5/19/2010. Larry specializes in the S&P "e-mini" market. However, pivot points apply equally well to most trading markets, i.e. forex, futures, and stocks. His email begins as follows;

From the Desk of S&P "Floor" Trader Larry Levin…

Today's Secret Trading Tip

How to Determine Where the Real Support and Resistance is Everyday

Hi Brian,

Understanding support and resistance levels is an extremely important skill in any market, and it's absolutely critical if you plan on trading the S&P and Nasdaq E-Mini markets. Professional Floor Traders are aware of an entire range of major and minor support and resistance levels before the market opens each day. They also know how to calculate new levels as the trading day progresses.

Knowing where the market may turn gives you an effective road map to guide you through the day.

Most traders calculate support and resistance levels incorrectly, and to make their job even harder, they generally don't know how to trade around them. Many traders will use an old high or an old low and assume they've found support or resistance. That just doesn't work. Think about it for a moment. If the market always stopped at old highs we could never have an up trending market, and if the market always stopped at old lows we couldn't have a down trending market.

These Are the Same Numbers I (And Other Pro Traders) Use Every Morning

My Training Programs provide you with all of the information you need to correctly calculate support and resistance levels before the open each day. To make your trading even easier, we also have a daily e-mail service which provides what we believe are all of the important price levels each day before the market opens. (Highly recommended for both novice and experienced traders) These are the same numbers I and many other floor traders utilize each morning. Can you imagine the "edge" this information gives you over the average trader?

Let's face it; we all want to catch the big trending days, days when the S&P moves 15 or 20 points without looking back. Unfortunately those big trending days just don't happen that often. Most days the market doesn't trend very much in either direction, instead it will move between known support and resistance levels.

Knowing the location of these price levels is important, but knowing how to trade around them can be the difference between success and failure.

One of the simplest ways to do technical analysis is by using the pivot points. This method has been around for years and is described below:

A pivot point is approximately the center of today's price range . From there, I calculate three different sets of highs and lows.

These pivots are then potential support and resistance, when prices have gone outside the Value Area.

Pivot Point = (High + Low + Close) /3

#1 high pivot = Pivot Point + (Pivot Point - Low)

#1 low pivot = Pivot Point - (High - Pivot Point)

#2 high pivot = Pivot Point + 2 (Pivot Point - Low)

#2 low pivot = Pivot Point - 2 (High - Pivot Point)

#3 high pivot = High + 2 (Pivot Point - Low)

#3 low pivot = Low - 2 (High - Pivot Point)

This is Easy to Do By Hand Everyday, After the Market Closes, So You are Ready for the Next Trading Day

I have this formula in Lotus so I just plug in the numbers and the different sets of pivots are given to me. I do not use the pivot # for trading; I only use it to determine the "sets" of pivots. I also do not use the #1 high pivot as support, if the market opens or trades above it. I use them as "envelopes". Lets say the market opens above the #1 high, I'll look at the #1 low for support and the #2 high for resistance.

In my own experience, I have noticed that the #1 pivots work the best over time. If the market gaps over the #1 pivot high, you'll have a #2 and #3 to work with. You can either use limit orders to buy or sell at these pivots and use a money stop, or wait for the pivot to "hold" the market. If the pivot "holds" the market, trade an engulfment, doji-star, tail or whatever you see, which is a more conservative entry.

Best Trades to you,

Larry Levin, Founder & President- Trading Advantage

Author of: **How I Made $1,900,336.82 Trading Commodities**

(End of Real "Floor Trader" Email about Pivot Points.)

Trading the Pivots, Support and Resistance

Based on an article written by William Greenspan, the general idea behind pivots is to go long above the pivot and short below the pivot. Greenspan also notes the mode of the market (bull or bear) should be used when deciding whether to go long or short at the pivot point. In addition, the first time the pivot point is violated (to the upside or downside) is the most important crossing of the pivot in a trending market. Subsequent crossings are less meaningful. Please remember that pivot points can be traded in all markets, including forex. Another way to trade pivots, is to "buy off the bounces" from support levels, and to "sell off the bounces" from resistance levels in a range bound market. Use other indicators as confirmation "filters" for price direction, i.e. RSI, MACD, MA's, Fibonacci levels, and Candlesticks.

Trading Support and Resistance Levels

The interpretation of the support and resistance levels can be used for profit targets and setting stops. If you trade off the pivot point, then you might look to begin taking profits on the long side at R1, and profits on the short side at S1. The secondary profit targets would then be R2 and S2.

Break-out traders may look to go long if a market can break through R1, with a target of R2 (or sell the market if it falls through S1, with a target of S2). Because resistance becomes support once it is violated, and vice versa, you also could place stops near the breakout level (R1) for longs, and near breakdown levels (S1) for shorts. Counter-trend traders may look to fade (go against) the market by buying at support levels (S1, S2) and sell (or take profits) as the market approaches resistance levels (R1, R2).

Other considerations

Markets with wider ranges tend to generate more meaningful numbers than those with narrower ranges. Therefore, use of pivot points and support and resistance levels, would most likely work better in markets such as the Foreign Currency Exchange (Forex), S&P futures, Dow Jones Futures, or T-bond futures, and would be less meaningful in markets like corn or sugar, which tend to trade in narrower ranges.

www.FXCM.com has a pre-calculated **Pivot Point Moving Average** on its trading platform. This is a unique and helpful approach to pivot point usage.

CCI: "Commodity Channel Index"

Developed by Donald Lambert, the Commodity Channel Index (CCI) is an indicator designed to identify cyclical turns in currencies or commodities. There are 4 steps involved in the calculation of the CCI:

Calculate today's **Typical Price (TP)** = (H+L+C)/3 where H = high; L = low, and C = close.

Calculate today's 20-day Simple Moving Average of the Typical Price (SMATP).

Calculate today's **Mean Deviation**. First, calculate the absolute value of the difference between today's SMATP and the typical price for each of the past 20 days. Add all of these absolute values together and divide by 20 to find the Mean Deviation.

The final step is to apply the Typical Price (TP), the Simple Moving Average of the Typical Price (SMATP), the Mean Deviation and a Constant (.015) to the following formula: For scaling purposes, Lambert set the constant at .015 to ensure that approximately 70 to 80 percent of CCI values would fall between -100 and +100. The CCI fluctuates above and below zero. The percentage of CCI values that fall between +100 and -100 will depend on the number of periods used.

A shorter CCI will be more volatile with a smaller percentage of values between +100 and -100. Conversely, the more periods used to calculate the CCI, the higher the percentage of values between +100 and -100.

Lambert’s trading guidelines for the CCI focused on movements above +100 and below -100 to generate buy and sell signals. Because about 70 to 80 percent of the CCI values are between +100 and -100, a buy or sell signal will be in force only 20 to 30 percent of the time.

When the CCI moves above +100, a currency is considered to be entering into a strong uptrend and a buy signal is given. The position should be closed when the CCI moves back below +100.

When the CCI moves below -100, the security is considered to be in a strong downtrend and a sell signal is given. The position should be closed when the CCI moves back above -100.

Since Lambert’s original guidelines, traders have also found the CCI valuable for identifying reversals. The CCI is a versatile indicator capable of producing a wide array of buy and sell signals.

CCI can be used to identify overbought and oversold levels. A currency would be deemed oversold when the CCI dips below -100 and overbought when it exceeds +100. From oversold levels, a buy signal might be given when the CCI moves back above -100. From overbought levels, a sell signal might be given when the CCI moved back below +100.

As with most oscillators, divergences can also be applied to increase the robustness of signals. A positive divergence below -100 would increase the robustness of a signal based on a move back above -100. A negative divergence above +100 would increase the robustness of a signal based on a move back below +100.

Trend line breaks can be used to generate signals. Trend lines can be drawn connecting the peaks and troughs. From oversold levels, an advance above -100 and trend line breakout could be considered bullish. From overbought levels, a decline below +100 and a trendline break could be considered bearish. Rex Takasugi has used this type of system to trade the Russell 2000.

Traders and investors use the CCI to help identify price reversals, price extremes and trend strength. As with most indicators, the CCI should be used in conjunction with other aspects of technical analysis. CCI fits into the momentum category of oscillators.

Parabolic SARS:

Developed by Welles Wilder, creator of RSI and DMI, the Parabolic SAR sets trailing price stops for long or short positions. Also referred to as the stop-and-reversal indicator (SAR stands for “stop and reversal”), a **Parabolic SAR is more popular for setting stops,** than for establishing direction or trend.

Wilder recommended establishing the trend first, and then trading with Parabolic SAR in the direction of the trend. If the trend is up, buy when the indicator moves below the price. If the trend is down, sell when the indicator moves above the price.

The formula is quite complex and beyond the scope of this writing, but interpretation is relatively straightforward. The dotted lines below the price establish the trailing stop for a long position, and the lines above establish the trailing stop for a short position. At the beginning of the move, the Parabolic SAR will provide a greater cushion between the price and the trailing stop. As the move gets underway, the distance between the price and the indicator will shrink, thus making for a tighter stop-loss as the price moves in a favorable direction.

There are two variables: the step and the maximum step. The higher the step is set, the more sensitive the indicator will be to price changes. If the step is set too high, the indicator will fluctuate above and below the price too often, making interpretation difficult. The maximum step controls the adjustment of the SAR as the price moves. The lower the maximum step is set, the further the trailing stop will be from the price. Wilder recommends setting the step at .02 and the maximum step at 20.

Chapter 10: Trading With A Strategy

Trading successfully is by no means a simple matter. It requires time, market knowledge, and market understanding, and a large amount of self restraint. Forex trading can be highly volatile. The practice of trading it, by way of margin, increases that volatility exponentially. We are, therefore, talking about a very “fast market”, which is naturally inconsistent. Following that concept, it is logical to say, that in order to make a successful trade, a trader has to take into account technical and fundamental data, and make an informed decision, based on his perception of market sentiment and market expectation.

Timing a trade correctly is probably the most important variable in trading successfully, but, there will be times where a traders timing will be off. Don’t expect to generate returns on every trade.

Let’s list what a trader needs to do in order to put the best chances for profitable trades on his side:

Trade with money you can “afford to lose”

Trading fx markets is speculative and can result in loss, it is also exciting, exhilarating and can be addictive. The more you are ‘involved with your money’ the harder it is to make a clear-headed decision. Money you have earned is precious, but money you need to survive should <u>never</u> be traded. So, trade with money you <u>could lose and still survive</u>, but <u>not</u> with the mentality that it’s ok to lose “X” amount of money trading – wrong mindset. Yes, it’s discretionary or *“extra”* money you have available, but still, it has all <u>the same utility and monetary value</u> to you as money you want to keep as yours! *Trade to win, and trade NOT to lose money, but to protect it.*

Identify the State of the “gold” in the market

What is the market doing? Is it trending upwards, downwards, is it in a mountainous trading range? Is the trend strong or weak, did it begin long ago or does it look like a new trend that’s forming. Getting a clear picture of the market or currency pair “outlook” is laying the groundwork for a successful trade.

Determine what time frame you’re trading in

Many traders get in the market without thinking when they would like to get out, after all, the goal is to make money. This is true, but when trading, one must extrapolate in his mind's eye the movement that one expects to happen. Within this extrapolation, resides a price evolution during a certain period of time. Attached to this is the idea of exit price.

The importance of this is to mentally put your trade in perspective, and although it is clearly impossible to know exactly when you will exit the market, it is important to define from the outset if you'll be 'scalping' (trying to get a few points off the market), trading *intra*-day, or going longer term *inter*-day.

This will also determine what chart period you're looking at. If you trade many times a day, there's no point basing your technical analysis on a daily chart, you'll probably want to analyze 5, 15, 30 minute, and hourly charts. Additionally, it is important to remember the different time periods when various financial centers enter and exit the market, as previously explained, as this creates more or less volatility and liquidity, and can influence market movements.

Time your trade

You can be right about a potential market movement, but be too early or too late when you enter the trade. Timing considerations are two fold, an expected market figure like CPI, retail sales or a Federal Reserve decision can consolidate a movement that's already underway. Timing your move means knowing what's expected and taking into account all considerations before trading. Technical analysis can help you identify when and at what price a move may occur. We will look at technical analysis in more detail below.

If in doubt, stay out!

If you're unsure about a trade and find you're hesitating, stay on the sidelines.

Trade logical transaction sizes

Margin trading allows the fx trader a very large amount of leverage, and trading at full margin capacity can make for some very large profits or losses on an account. "Scaling" your trades (smaller amounts "scaled" in and out), so that you may re-enter the market, or make transactions on other currencies is generally wiser. In short, don't trade large amounts that can potentially wipe you out, and don't put all your eggs in one basket.

Also, consider trading a "mini" forex contract that only has a value of $10,000 (versus a $100,000 position). You can trade the "mini" for as low as $150, depending on minimum capital requirements set by each brokerage firm. If that’s too rich for your blood, you can sometimes trade “micro” positions, valued at just $1,000 each. These can be traded for as little as $15, if it is permitted by your brokerage firm. Know your options – check and see what is available to you.

Gauge market sentiment

Market sentiment is what most of the market is perceived to be feeling about the market and therefore what it is doing or will do. This is basically about trend. You may have heard the term “the trend is your friend”, this basically means that if you’re in the right direction with a strong trend you will make successful trades. This of course is very simplistic, as a trend is capable of reversal at any time. Technical and fundamental data can indicate however if the trend has begun long ago and if it is strong or weak.

Market expectation

Market expectation relates to what most people are expecting as far as upcoming news is concerned. If people are expecting an interest rate to rise and it does, then there usually will not be much of a movement because the information will already have been “discounted” by the market, alternatively if the adverse happens, markets will usually react violently.

Use what other traders use

In a perfect world, every trader would be looking at a 14 day RSI and making trading decisions based on that. If that was the case, when RSI would go under the 30 level, everyone would buy, and by consequence, the price would rise.

Needless to say, the world is not perfect, and not all market participants follow the same technical indicators, draw the same trend lines, and identify the same support & resistance levels. The great diversity of opinions and techniques used, translates directly into price diversity.

Traders, however, have a tendency to use a limited variety of technical tools. The most common are 9 and 14 day RSI, obvious trend lines and support levels, Fibonacci retracement, MACD and 9, 20 & 40 day exponential moving averages.

The closer you get to what most traders are looking at and using, the more precise your decisions will be in following the majority of market moves. The reason for this is simple arithmetic, as larger numbers of traders, a majority more than not, will move the market up and down, buying and selling, using and looking at the same indicators, oscillators, and signals, and using the same “pre-set” settings, as everyone else.

"Smart Money" will generally out-fox the average Joe with their own custom indicators and settings, but not always. *The trick is to not out-fox yourself by messing with pre-set and already decent indicators and settings*.

Know your current profit and loss (P&L)

Know your current and accumulated profits and losses for every position, which is calculated for you in most forex trading platforms. This enables traders to track their P&L pip by pip as the market fluctuates. Some platforms simply give you raw buy/sell trade data for exporting to your Excel spreadsheet.

Approximate USD values for a one (1) "pip" move per contract in traded currency pairs are as follows (per 100,000 units of the base currency):

Currency pairs	1 pip	1 pip move per 100k (lot)
EURUSD	.0001	EUR 100'000 x .0001 = USD 10.00
USDJPY	.01	USD 100'000 x .01 = JPY 1'000 / spot = approx USD 9.7
USDCHF	.0001	USD 100'000 x .0001= CHF 10.00 / spot = approx USD 8.5
GBPUSD	.0001	GBP 100'000 x .0001 = USD 10.00
EURJPY	.01	EUR 100'000 x .01 = JPY 1'000 / spot = approx USD 9.7
EURCHF	.0001	EUR 100'000 x .0001 = CHF 10.00 / spot = approx USD 8.5
EURGBP	.0001	EUR 100'000 x .0001 = GBP 10.00 / spot = approx USD 19.00
GBPJPY	.01	GBP 100'000 x .01 = JPY 1'000 / spot = approx USD 9.7
GBPCHF	.0001	GBP 100'000 x .0001 = CHF 10.00 / spot = approx USD 8.5
CHFJPY	.0001	CHF 100'000 x .01 = JPY 1'000 / spot = approx USD 9.7
USDCAD	.0001	USD 100'000 x .0001= CAD 10.00 / spot = approx USD 8.00
AUDUSD	.0001	AUD 100'000 x .0001 = USD 10.00

USDSGD	.0001	USD 100'000 x .0001= / spot = approx USD 6.00
USDSEK	0.001	USD 100'000 x .001= / spot = approx USD 1.6
USDNOK	.0001	USD 100'000 x .0001= / spot = approx USD 1.6
USDHKD	0.001	USD 100'000 x .001= / spot = approx USD 1.2
AUDJPY	.01	USD 100'000 x .0001= / spot = approx USD 9.7

On a typical day, liquid currency pairs like EUR/USD and USD/JPY can fluctuate a full point (.0100, 100 pips). On a EUR 1,000,000 position, a full point on EUR/USD equates to 10,000 USD.

Trade Example:

Trader "X" has an account of USD 50,000.

He buys EUR/USD 500,000 @ 1.1500 at the market, and places a stop loss order at 1.1460.

At this point, his maximum risk is USD 2000 and his margin utilization is 10%, well above the minimum.

During the day, the forex market fluctuates, and initially moves down to 1.1480.

At this point, trader x has an unrealized loss of USD 1000, and his margin utilization has fallen to 9.60%, reflecting the effect of the downward move on his margin capacity.

Later, the price moves back up to 1.1550, and trader x decides to take profit. He sells at 1.1550, making a USD 2500 profit, which represents a 5% return on his account value. Note that trader x took only a risk of USD 2000, and made a return of USD 2500. This equates to a risk/reward ratio of 1.25. A reasonable risk reward ratio is what every trader should be aiming for.

[Please note that the example above is a random case scenario, and there is a potential for profit, as well as a potential for loss in foreign exchange trading.]

The breadth, depth, and liquidity of the market are truly impressive. It has been estimated that the world's most active exchange rates like

EUR/USD and USD/JPY, can change up to 18,000 times during a single day.

Understanding margin

Trading currencies on margin lets you increase your buying power. Here is a simplified example: If you have $2,000 cash in an account that allows 200:1 leverage, you could purchase up to $400,000 worth of currency. This is because you only have to post 0.5% of the purchase price as collateral. Another way of saying this is that you have $400,000 in buying power.

Benefits of Margin

With more buying power, you can increase your total return on investment with less cash outlay. To be sure, trading on margin magnifies your profits AND your losses.

Here is an example that demonstrates the upside of trading on margin:

With a USD $5,000 balance in your account, you decide that the U.S. Dollar (USD) will increase in value relative to the Swiss Franc (CHF).

To execute this strategy, you must buy Dollars (simultaneously selling Francs), and then wait for the exchange rate to rise. This is easily done in your trading platform software - simply click on the USD/CHF exchange rate in the appropriate trading window and select “BUY.”

Assume the current bid/ask price for USD/CHF is 1.2732/1.2735 (meaning you can buy $1 US for 1.2735 Swiss Francs or sell $1 US for 1.2732 francs).

Your available leverage is 200:1 or 0.5%. You execute the trade, buying one “Lot” of USD/CHF. That is, buying 100,000 US dollars and selling 127,350 Swiss Francs.

At 200:1 leverage, your initial margin deposit for this trade is $500. Note that your account balance is still $5,000 - the margin requirement is not “deducted” from your account, it simply must be available in your account.

As you expected, USD/CHF rises to 1.2815/18. You can now sell $1 US for 1.2815 Francs or buy $1 US for 1.2818 Francs. Since you are long dollars (and are short francs), you must now sell dollars and buy back the francs to realize any profit.

You close out the position, selling one lot at 1.2815, realizing a $624 profit.

SUMMARY:

Initial Investment: $500

Profit: $624.27

Return on Investment: 124%

If you had executed this trade without using leverage, your return on investment would have been less than 1%.

Managing a Margin Account

Trading on margin can be a profitable investment strategy, but it's important that you take the time to understand the risks, or you'll be waist high in cold water.

You should make sure you fully understand how your margin account works. Be sure to read the margin agreement between you and your clearing firm. Talk to your account representative if you have any questions.

The positions in your account could be partially or totally liquidated, should the available margin in your account fall below a pre-determined threshold.

You may not receive a margin call before your positions are liquidated.

You should monitor your margin balance on a regular basis, and utilize stop-loss orders on every open position to limit downside risk.

The following is worth Repeating…

While the **Commodity Futures Trading Commission (CFTC)** has proposed limiting leverage to 10:1, you may have noticed that 200:1 leverage is still available outside the U.S. The CFTC's proposal is the equivalent of putting a 15-mile-per-hour speed limit on a superhighway, and many U.S. traders have responded by simply moving their accounts to the U.K. affiliates of U.S. brokers.

Effective November 30, 2009, they will be requiring U.S.-based retail forex brokers to cap available leverage at 100:1. To quote the notice to members:

"…beginning on November 30, 2009, all FDMs must collect a customer security deposit of at least 1% for the currencies listed in Section 12 and at least 4% for all other currencies."

The Section 12 currencies are the "majors" and some of the big European regional ones: British pound (GBP), the Swiss franc (CHF), the Canadian dollar (CAD), the Japanese yen (JPY), the Euro (EUR), the Australian dollar (AUD), the New Zealand dollar (NZD), the Swedish krona (SEK), the Norwegian krone (NOK), and the Danish krone (DKK). The U.S. dollar (USD) is not specifically listed, but obviously it's included.

UPDATE: The CFTC has now limited Forex leverage to 50:1, effective October 18, 2010. A 2% security deposit is required for the major currency pairs, and a 5% security deposit is required for all other currency pairs. The NFA will enforce these new rules. The CFTC, based on the Dodd-Frank Wall Street Reform and Consumer Protection Act, will also limit retail forex trading access to non-U.S. dealers.

End of “How To Become A Successful Forex Trader”
Volume 2: An Intermediate’s Guide To Forex Trading Profit$

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Volume 3: An Advanced Guide To Forex Trading Profit$ - Chapter 1: Peak Performance Trading Tips

Peak Performance Trading Tips

Jack Schwager's primary conclusion after writing the first two *Market Wizard* books is that great traders all have developed systems that fit who they are. I agree that's one of the secrets to success. Here is a list of some of the criteria you might want to think about in order to design a system that fits you.

1. You need to know who you are. How can you design something that fits you if you really don't know who you are?

2. Once you know who you are, then you can determine what your objectives are and design a system to fit those objectives.

3. What are your beliefs about the big picture and to what extent must your system be able to fit your big picture beliefs. For example, if you believe that the U.S. dollar is doomed to collapse over the next 5-10 years, how would that affect your thoughts about developing a trading system?

4. You can only trade your beliefs about the market, so you need to understand what those beliefs are. What specifically do you believe about the market and how does that give you an edge? When you understand these criteria, then you can specifically design a system that you are comfortable.

Let's take a look at one example. Suppose you believe that markets are not really random because there are big trends in the market that don't fit the price movements you'd expect of random markets. You perhaps believe that the best way to make money in the markets is to find and capitalize on those trends. Now if this was your primary belief, do you think you could do the following?

Buy things that were out of favor that nobody likes? Probably not because this doesn't fit the primary belief that you believe gives you an edge.

Sell high and buy low like a band trader is likely to do? Probably not, because this is a very different mentality.

Now I could give lots of examples of beliefs and lots of examples of things that might be hard for you because they don't fit those beliefs. Hopefully, you've got the idea by now. You must determine what you believe about the markets that will give you an edge because you can only trade something easily that fits your beliefs.

5. Next you must understand the various parts of a system and the beliefs that you have about each of those parts. For example, what do you believe about setups, entry, stops, taking profits, position sizing etc. Again, you can only comfortably trade your beliefs.

For example, suppose you want to catch big trends (like big trout), but you believe in tight stops (throwing small fresh-water fish back into the lake). This means that you could easily get whipsawed in and out of trades a lot, but that when you do catch a big trend, your total reward will be many times your initial risk.

6. Another way of stating #5 is to ask yourself, "What criteria must my system meet in order for me to be able to comfortably trade it?" And while I can give you lots of suggestions, this is still a matter of personal comfort, and a big part of developing a system that fits you.

Lastly, you must ask yourself, what you will do to make sure your system fits all of these criteria well enough for you to be comfortable trading it. If it doesn't meet some of your criteria that well, what will you do to make it fit? Or will you change your criteria?

Now, let's change gears. The following caveats are not meant to be contradictory, or to discount your learning process, but to provide you with a balanced "food for thought" meal of information.

Remember, this is what "intermediate" traders (and some "advanced" traders) go through in their thought process. They think they need to "develop" a system from scratch, in other words, to "re-invent the wheel" (rather than finding an already built and good wheel to use). ***You need to ask these questions of yourself, and then skip past the process of wasting your valuable time, in futile attempts to "make your own holy-grail trading system."*** Traders get themselves into trouble trying to know too much, and in trying to apply too much knowledge at once. They know just enough to get themselves into trouble, and to lose a lot of money in record time.

I have a suggestion for you. Ask the questions of yourself, learn, raise your awareness, learn more and love it, but, keep it simple, slow down, don’t waste your time and money re-inventing the wheel as far as trading is concerned. Be aware of the learning process and thoughts presented in this book and others, and then read through this section patiently. This concept alone will save you from years of failed trading and thousands of wasted dollars.

In other words, don’t be your own worst enemy, by letting a little knowledge go to your head, whereby, your ego takes over and you think you can now out-smart the markets with your new awe-inspiring knowledge and wisdom. Einstein said it best, ***“Simple is sophisticated.”*** Keep it simple. Keep your feet on the ground. Be aware of “everything,” but focus on doing what works, and the techniques that have already been proven to work by many successful traders over many years.

Chapter 2: How To Increase Forex Profit$ 100% In 10 Minutes

How To Increase Forex Profits 100% in 10 Minutes

This simple exercise will increase Forex profits 100% and works for 99% of all short-term FX traders - stop trading so much - widen your stops - widen your profit targets - and only trade in the direction of the trend.

1. Stop trading so much

Sure there are no “commissions” per se, but the pip “spreads” (costs per trade) exist, and believe it or not (well, you’ll believe it after you do the simple exercise below) the spreads are reducing your profits as much as 100% if you trade too much!

2. Widen your stops

Your initial stop loss should be a little wider than the average trader. Floor traders know where most traders place their stops, and if your stops are too close, they’ll get “taken out” by the pros. Give your trades some room to breath. Use support/resistance and “pivot point” levels, plus a little more for some extra room.

3. Widen your profit targets

Unless you think a trade can make you a decent profit, don’t do it. Wait for good trades that will make you a worthwhile profit.

4. Only trade WITH the TREND direction

The real, long-term money is made in the direction of the trend!

Simple exercise:

1. Download all your trades for the year into an excel spreadsheet (if you don’t know how to do this ask your broker for help).
2. Determine the dollar value of the spread for each trade.
3. Sum up the total dollar value of all spreads for all trades and add this number it to your current account balance; this is your spread adjusted account balance.
4. Take your spread adjusted current account balance and divide it by your opening balance at beginning of year; the result will be a percentage change.
5. Take your actual current account balance and divide it by your opening balance at the beginning of year. The result will be a percentage change.

6. Subtract your spread adjusted year to date percentage change from your actual year to date percentage change.
7. That number should be 100% or more.
8. Take the necessary steps as outlined above (1 to 4) and improve your results 100%.

Remember, you have to “measure” your results first to know them and to be able to improve them.

Chapter 3: Where To Place Your Stop Loss

Where To Place Your Stop Loss

Many traders have a problem defining where they should place their stop loss. They have no problem entering a trade but often have a problem defining where they should take profits or cut their losses.

In addition to Parabolic SARS, some of the more popular methods of choosing a stop loss are as follows:

1. Dollar or “pip” value.
2. Support and resistance (and pivots).
3. Fibonacci levels.

A lot will also depend on your trading time frame but for this exercise I shall use 4 hourly charts as a compromise between our longer-term traders and the intraday day traders.

A trader using a dollar value stop loss will place his stop loss (stop) a given number of dollars or “pips” away from where he entered the market. In the example of EUR/USD, the trader enters the market long at 1.0840 on the breakout of resistance at 1.0835.

He determines that he will use a dollar value as his stop of $300. This makes his stop level of 1.0810 (30 pips at $10 per pip). If the market should retrace 30 pips or more, then his stop will be hit, and he will be out of the market.

When using support or resistance for placing a stop, a trader will first determine where they will get into the market, and if long, will then place their stop under the nearest support. If they are short, they will place the stop above the nearest resistance. In the case of the EUR/USD, the trader goes long at 1.0750, which is a break of resistance at 1.0746, and places his stop at 1.0680, which is a few pips away from support at 1.0683. Although the break of the resistance level of 1.0746 should eventually become support, when you enter a trade, you don’t know if the break is real or false, so the safer place is the most recent support.

When using Fibonacci to place your stop, you would first measure the move, and in the case of the USD/JPY, the move was from 117.85 to 119.52. This gave us three retracement levels 118.88 (38.2%), 118.68

(50%) and 118.49 (61.8%). In this example, the trader entered the market slightly ahead of the 38.2% at 118.90, and placed his stop at 118.45, just below the 61.8% retracement. He could just as easily have used the 50% retracement, depending on the market and market conditions.

The three methods we discussed in this lesson are not all the ways to place a stop loss, but they are the most common. The question you are probably asking now is which method is the best. Well, there is no right answer to this. It depends on many factors such as account size personal preference and what method you have back tested for optimal results.

In the case of the dollar value method, the disadvantage is that the dollar amount may no be logical for the market conditions. You may find that by using this method you are taken out to frequently only to find the market taking off in the direction of the original trade. The best way to overcome this is to do some back testing to find the best amount for the market you are trading. The advantage is that is easy to implement. There is no working out of figures or levels and you can place your stop as soon as you get into the market.

The second method of using support and resistance may be very logical, but the distance between where you enter the market and where you can place your stop may be so large that the dollar amount would put your account in jeopardy. The way round this would be to only take trades that fit in with your level of risk and personality.

The last method of using Fibonacci is very adaptable, but can also mean that your stop is so far away that your dollar risk could be too large. The alternative could be to use the 50% retracement instead of the 61.8% retracement to place your stop. The advantage is that Fibonacci retracement can be very accurate.

There is no reason why you can not use all three methods and use a particular stop loss placement depending on market conditions. You will also find that you will probably have a particular method that you prefer. First back test each method, then find the one that most suits your trading style and fits in with your risk.

Close Stops Do Not Necessarily Lower Your Risk!

A lot of new traders fall into an insidious little trap. Because they hear from those who they consider better, more experienced, etc., that your stop defines your risk, they draw the conclusion that closer stops mean lower risk. Sadly, this just isn’t the case.

Are you thinking something like this right now? *"A closer stop means I lose less money, if the market goes against me, than a stop put further away. Smaller losses mean less risk."*

If so, you are only looking at one side of the equation.

The risk you take on a trade combines not just how large a loss you might take, but also the probability of taking one. As I think we can all agree, markets very rarely move in straight lines. Then tend to wander around a bit as different forces push prices back and forth, especially as you move toward the short-term timeframes.

Because of that movement, as you put your stop closer and closer to current price you increase the chances of that stop being hit. A higher likelihood of your stop getting taken out means an increased probability of taking a loss. Sure, the loss might be smaller than it would be if you put the stop further away, but you're going to take the loss more often. At some point you reach a threshold whereby the tighter stops, because of their increased likelihood of getting hit, offset the smaller losses taken when compared to the wider stops.

As an example, let's assume we have a market which has a 20% chance of moving 10 points and a 50% chance of moving 5 points during our trading timeframe. If we do ten trades that would mean the wider stop gets hit twice, costing losses of 20 points. The tighter stop would get hit 5 times for a total of 25 points in losses.

But that's only part of the equation. There are two other elements at work here. First, having close stops that are within the market's normal trading range not only means more losses taken, it also means more of those awful trades where the market goes against you enough to take out your stop, then reverses and goes profitable. Having the tight stops, therefore, means you miss some potentially big winners.

That's pretty hard to deal with. For some traders, though, losing at a high frequency is even harder. It can become significantly destabilizing to one's trading confidence, and that's not a good thing.

My own personal philosophy on the placement of stops is to put them at a point, where if the market reaches them, the move I expected to unfold probably isn't going to happen, but I've given it enough room if it does unfold.

I never place my stops based solely on how much "I'm willing to lose on a trade." I set my position size based on where my stop is going to be, and what that implies in terms of position risk.

Does all of this sometimes mean that you take smaller positions to keep your per trade risk level? Absolutely! It's also been my experience that most traders trade too big, which usually means bad news at some point. *Cutting back on your position size, therefore, shouldn't be seen as a bad thing, but as a good idea.*

Chapter 4: How To Trade Using Multiple Time Frames

How To Trade Using Multiple Time Frames

<u>Confluence on Two Or Three Time Frames Indicates Solid Set-Ups.</u>

“Confluence” is combining multiple time frames looking for similarities in areas where the technical picture becomes very clear, i.e. similar areas of support/resistance, pivots, fib levels, and trend directions on different time period charts, i.e. 5 minute, 15 minute, 30 minute; Or, 1 hour, 4 hour; Or, daily, weekly, monthly.

What Time Frame Should YOU Trade?

One of the main reasons I see traders not do as well as they should, is that they are trading the wrong time frame for their personality. In the normal course of events, someone learning to trade will either educate himself by taking a course or reading relevant books.

In order for the person giving the course, or writing the book, to demonstrate his point, he will have to use a particular time frame. This often becomes the student’s time frame by default because that is how he learned.

In today’s electronic world, many new traders start off by studying very small time frames, such as 1 minute and 5 minute charts. This often leads them to get frustrated and to become anxious when they trade, because it is the wrong time frame for their personality (too volatile).

Let me just add here, that there is nothing wrong with trading any particular time frame - just be sure you are trading it for the right reasons, and profitably.

So what is the right time frame for you? Well, it all depends on your personality. You have to feel comfortable with the time frame you are trading in. You have to feel at home with that time frame. There is always a degree of pressure when you trade because there is the real potential for loss or gain and that will affect you to some degree. You should however, not feel that the reason you are feeling pressure or frustration, is because things are happening so fast that you find it difficult to make decisions, or so slowly that you get frustrated.

Start with the 5 minute chart, then move to the 15 minute chart, and spend some time trading on each time frame. Then repeat the process with the 30 minute chart, 1 hour chart, and 4 hour chart, until you find your favorite(s).

The point is, only you can decide the correct time frame for your personality and trading style. More on time periods will be discussed below.

You will also have to take into consideration the market you are trading, and amount you have available to trade. Shorter time frames usually means that you can have better use of margin, and stop loss orders can be much tighter. But, you may also have a tendency to over-trade, as there is much more activity.

If you think the reason your trading is not going the way that it should, but you believe that your method of trading is sound, it may just be that you are trading the wrong time frame, and it is effecting you psychologically.

To sum up, if you have a solid trading plan and a sound method of trading your chosen market, you should be able to take that approach and apply it to any time frame.

The question is, if you could make the same amount of money trading any time frame, which time frame would you choose? You will of course, have to take into consideration that the time frame you choose, does generate enough trading opportunities for you to be happy with the results.

It is also worth noting, that if your trading is going well and you are profitable, then don’t even think about changing time frames. As the saying goes “if it ain’t broke, don’t fix it.”

When you do eventually find the time frame you are happy with, you can then start looking at multiple time frames to help your “confluence” analysis of the market.

Multiple Time Frames

Multiple time frame trading has probably done more to increase my overall profitability, than any other single element. The correct use of multiple time frame trading will allow you to stay in the trade longer, by better identifying where you are, relative to the big picture.

I first became interested in multiple time frames, after a lot of research, about why particular support and resistance levels held or broke. It became apparent, that the time frame I was dealing in was only reacting to the larger more powerful trend, in a higher time frame.

There is also the question of which other time frames should I use? Many traders like to multiply the time frame there are trading by 5. If they like to trade a 5 minute chart, they would multiply 5 minutes by 5 to get 25 minutes.

They would then round the number up to a time period they like, such as a 30 minute chart.

When trying to determine the chart of the next order of magnitude, the important thing to remember is that there must be enough of a difference for the smaller time frame to oscillate, without every move reflecting in the larger time frame. If the time frames are too close, you won't see any discernable difference.

There is obviously a limit to how many time frames you can study. You don't want to have a screen full of charts that are all telling you different things. First, decide what your own favorite time frame is. Let's assume that it is a 15 minute chart.

This would imply, regardless of your trading method, that you want to take as much profit from your trading day as possible.

Now we have a 15 minute chart, representing our immediate trend, and we need a chart to represent our longer term trend, which shall be the 30 minute and hourly charts. You can use a simple 10 and 20 period exponential moving average cross-over to signify trend on all the charts (and with trend lines and price channels).

The trick to this approach is to monitor the longer time period, and trade the shorter time period (immediate trend). As long as your longer time period trend stays intact, you can use the medium term trend to buy the retracement in an uptrend, or sell the rallies in a downtrend.

The hourly chart represents the long-term trend, and the daily chart also represents the "big picture" long term trend. You could also add a third chart of an even shorter time period, to represent the shorter term trend. This short-term trend could be used purely for monitoring the trade you have just entered, or you could use it to help place a tight stop loss (maybe a 5, 10, or 15 minute chart).

Another very effective use of multiple time frames is for resistance and support. If you identify resistance or support on a higher time frame, you can anticipate that you will meet resistance at that level on a smaller time frame. This can be invaluable for entering and exiting positions.

I personally wouldn’t monitor more than three time frames at any one time. This is not to say you should not analyze other time frames, but there is a limit to what you can realistically watch. Don’t suffer “analysis paralysis.”

Chapter 5: How To Indentify High Probability Trade Set-ups

How To Identify High Probability Trade Set-ups

I want to discuss how I combine multiple time frame analysis and Stochastics in identifying high probability set-ups versus low probability set-ups.

First, some key points:

Higher time frames, generally, but not always, take precedent over lower time frames.

Stochastics, for me, is a filtering mechanism, and not a timing mechanism.

To review, I use 3 primary time frames in day-to-day ("inter-day") analysis:

Daily chart

Weekly

Monthly

I use all charts to identify key support and resistance levels and trend lines.

Identifying the trend is simple, but only one piece to the puzzle. Once the trend is correctly identified, you then need to determine whether or not prices will continue to trend ***(this can also be done "intra-day," using 15, 30, and 60 minute charts).*** There are many times when the trend is easily identified, but is actually on the verge of changing trend direction. This is where your use of indicators comes into play, to help you "filter" your trades.

In order to make a proper assessment, you need to add at least one more indicator to your chart, in order to know whether or not a trade is imminent, in this case, try using Stochastics, which can sometimes be a "leading" indicator.

Stochastics simply confirms and "filters" our trade decision, by looking at the charts, and by comparing "signals." However, there are many times when this will not be the case. If no confirmation is given, then no trade is made.


Slow Stochastic shows overbought and oversold levels

Chapter 6: Putting It All Together

Putting It All Together

Alone, none of these indicators and tools yield optimum results. However, when ***combined and used in unison***, they can give traders the extra edge needed to better understand short and long term trading dynamics. Therefore, it is important for traders to look for relationships between the different indicators as multiple signals, and how they can provide the most accurate trading predictions, when combined as trading *confirmations*, and with multiple time period charting *confluence* (similarities).

How Many Indicators Should I Follow?

Although trading strategies do differ in applications and techniques, smaller traders are able to capture moves on relatively simple indicators. Used individually, the price oscillators have provided the best opportunities, as they are relatively easy to understand.

For instance, the RSI will provide great buy and sell signals as it displays reference levels (the 30 for oversold conditions and 70 for overbought conditions). Here, traders can buy or go long, once the RSI peaks above the oversold, or below the overbought regions.

In a similar way, the MACD presents buy or sell signals through the crosses between the signal and moving average line. If you add these indicators together, each signal confirms the other. You can also add additional and confirming signals by using support/resistance, trend lines, Fibonacci levels of retracement, pivot points, as well as Stochastics. Some broker platforms advertise “over 100 + indicators,” most of which are not very useful - you just don’t need that many indicator tools. We’ll see what the “Pros” use below. *You really don’t need to use more than 3-5 indicators/oscillators for your trade confirmations. The more you use, the more “analysis paralysis” you’ll feel.*

Are There Optimum Indicator Parameters?

What parameters do you use for your moving averages? Is there any such thing as an optimum parameter for any indicator? Are there any mystical powers about indicators, which makes them predict the market? No.

Most indicators are lagging. This is so, since they are all calculated from historic prices, and there is no argument to say that price develops in a linear fashion, which would imply indicators can be used to forecast price. I have not found one that predicts the market with 100% accuracy. I doubt you will find one either.

Let's look at RSI. The default in most platforms is 14. This is because it was considered by Welles Wilder, who created RSI, that there is a common 28 day cycle in the market, and thus, an indicator length of half the cycle length, is a broad yardstick to use.

If you look back at price history and apply several different length RSI's over that history, at times you will find that (for example) an 8 period will work well during sharper oscillating markets, while during broad swinging markets, a 14 period may work better.

Well, now we have a game plan. We can use an 8 period RSI when the market is choppy, and a 14 period when it's not. There is always an element of judgment involved, and no way of saying for certain, which time you should use.

The next argument is to optimize the RSI, and choose the most profitable periods. Well, it can be done, but, I have never found a parameter that works without substantial a draw down, certainly not one I would care to trade through. In addition, developing a system is not as straightforward as it seems. What if the optimum period is 14, with a profit of 100, but parameters of 12, 13, 15 and 16, only have profits of 25? (This is not an uncommon occurrence.). Would you feel confident that the optimum period was not just an aberration? In all probability it is.

So, after all that, it seems there is no safe parameter to use for indicators. I use the default in most cases - at least for momentum indicators - but the bigger issue here is not the indicator, but how you use it.

Again, let's take an RSI. Broadly, it is commonly used as an overbought/oversold indicator. This is only true during consolidating markets and not trending markets. You should never use these types of signals from momentum indicators, while a trend is in place. Does this mean it is right that, as soon as RSI moves above 70, it is time to sell, and below 30, is a time to buy? No. Definitely not… Here is one of the best bits of advice I can give…

Never take a trade, taking a signal from only one form of analysis…

The biggest piece of the puzzle that many (and probably most) traders fail to understand is price. For instance, why take a sell signal because RSI is above 70, but has not moved back below a strategic low. It could be beginning an uptrend, and the lows and highs are still moving higher. It could be pausing in a flag formation, which is a strong continuation pattern. Remember that many of the best profits come from long positions, when momentum indicators are overbought (and short positions when momentum indicators are oversold).

Always make sure that price is doing something to confirm your trade…

Maybe you see daily RSI above 70. Fine, move down into your charts and see if:

There is a price/momentum divergence, or

A reversal pattern is developing - then confirmed, or

A trend support has been broken.

If any of these occur, then your short trade, because daily RSI is overbought, stands a much greater chance of success.

See A Confirmation In The Price Direction

But what has this got to do with the parameter you choose for the RSI?

Nothing really, but as long as you are using one that is not an extreme, and follows the market on the majority of occasions, the actual parameter is not important - the combination of the RSI and price should be enough for the majority of trades in this way.

Just understand that indicators have their limitations, and do not expect them to magically tell you what trade to take. Study price. Understand price. Combine it with indicators, and you will have taken a step forward to better profits.

Chapter 7: 6 More Technical Analysis Tips

6 More Technical Analysis Tips

We have gone through some of the most common indicators in the previous sections. Traders may actually find that there are many other technical indicators in their charting software. There is no single indicator that can do all the work, and traders may pick a few of their favorites under different market situations. Some broker platforms advertise “over 100 + indicators,” most of which are not very useful - you just don’t need that many indicator tools, and many are redundant “copycats” of other indicators.

A. When The Market Is Ranging

When the market is ranging, there are only two possibilities if the price hits the boundary: retrace or breakthrough the boundary. The two possibilities make up the two major trading strategies in range-bound market: to trade inside the range or to trade after the breakthrough.

Technical Indicators in Range-bound markets

1. Oscillators (RSI, MACD, Stochastic)

The oscillators are the best detectors of overbought and oversold conditions. When the market is ranging, traders can pay attention to the overbought/oversold levels of the oscillators, or the crossovers of the MACD lines and Stochastic lines. The signals from the oscillators are always few bars behind the prices. Traders should compare the current price with support/resistance levels and the indicator’s signals, to make a better trading decision.

2. Bollinger bands

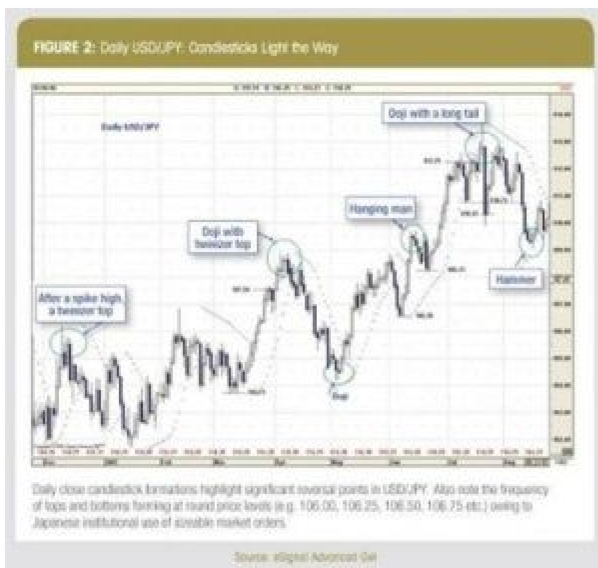
In range-bound market, Bollinger bands help to tell the future direction of the price movement, particularly when the price breaks through the bands or retraces away from the bands. If the bands are getting wider towards one direction (either up or down) in a range-bound market, it means the price is moving more vigorously towards that direction, and it is getting higher volatility. Price may eventually break through that boundary. If the bands and the central line is moving parallel and keep a constant width, the price is more likely to retrace at the two bands.

3. Support/resistant levels

Resistant levels are formed by recent highs, and support levels are formed by recent lows. The more times the price hits the recent highs/lows, the stronger is the resistance/support levels. Traders can buy at support levels and sell at resistant levels, and should always set tight stop just below the support level or above the resistant level to prevent any severe loss with subsequent breakthroughs.

4. Candlestick patterns

There are three indications from the candlestick patterns: bearish, bullish or neutral. Traders should not place their trades solely based on candlestick patterns. Use candlesticks as a confirmation of price direction. A bearish pattern (like a bearish engulfing pattern) is only valid when it occurs near the resistance levels. If the price rises further after a Doji, and it breaks through a resistant level, the Doji is seen as a bullish signal.



B. When The Market Is Trending

Trends occur when the market makes higher highs or higher lows (or lowers lows and lower highs). When the price is near the support/resistance levels in a trending market, there are only two possibilities for the price movement: to retrace or to keep going in the original trending direction.

Technical Indicators In Trending Markets

1. Trend lines

The trend-lines indicate the direction of the trend and the support/resistant levels. Traders can buy at support level when the market is undergoing retracement, or can sell when the price falls below support level. On the other side, traders can sell at resistance level when the market re-bounces, or can buy when the price rises above the resistant level.

2. Fibonacci retracements

If the market is undergoing retracements, Fibonacci levels can estimate to which level the market is expected to resume its current trending direction. Traders can place orders near those Fibonacci levels.

3. Moving averages

Moving averages can tell the direction of the current trend and they can also act as support/resistant levels. If the price falls below a moving average support level, or it breaks above a moving average resistant level, it is a signal of reversal. The longer the period of the moving average, the more reliable is the signal.

4. Divergence of oscillators

Although the overbought/oversold levels of oscillators are of less use in trending market, the divergence of oscillators can indicate the future direction of the trend. When a divergence occurs, traders should pay attention to the trend-lines, moving averages and Fibonacci levels, to see if the retracements have caused any breakthroughs and confirms any reversal signals.

To conclude, traders should not rely on only one technical analysis tool to make trading decisions. They should consider the overall situation on the market, and take references from different technical analysis tools. Even so, it does not mean that the more technical analysis tools they use, the more accurate are their decisions. In general, three to four references from different technical analysis tool groups would be enough.

C. The Cycle Of A Trend

Let’s look at the different stages of a trend, and how it can help you position yourself for a trade. It is commonly accepted, that there are four stages of a trend. These stages make up a cycle, and each cycle has smaller cycles contained within them.

It doesn’t matter whether you like to trade with 5-minute charts or monthly charts. Each market will be in some stage of the cycle as you are observing it.

Before you even think about getting into a trade, you should have some idea of where the market is in the cycle. This will help you avoid making the wrong entry. For example, if you have identified stage two of the cycle, it doesn’t make sense for you to be short in an up stage.

4 different stages

Stage One

The start of the cycle (stage one) is where there is very little happening and the market is generally flat. At this stage the market is normally oscillating in a certain range. As this stage ends you often see a breakout of the previous range. The breakout can often be explosive particularly if it has been in consolidation for a long period of time. For markets that can measure volume an increase of volume is an early indication that the breakout is real.

Stage Two

Stage two is after the breakout has occurred, and we begin to head North. Depending on the force of the move the market may rally and not come back to the breakout point or it may come back and test that area.

The second point to note is that the moving average began to turn up after the breakout, giving further support to the beginning of the cycle.

I have selected a simple 40 period moving average of the closes for example. You can use any moving average that suits the time frame you are dealing in.

Stage two continues making higher peaks and higher valleys, and may come back to test the moving average a few times.

Stage Three

Stage three is the final thrust of the cycle. You may notice a spike or a double top formation as the trend begins to run out of steam.

You would also note that the moving average turned down at this point, further give support to the end of the up move.

Stage Four

This is the final stage of the cycle and perhaps the most interesting. Depending on market conditions some traders may now go short. The market, in our example, is making lower valleys and lower peaks. This tells us that there is now a move to the downside.

Before initiating a short on the break, you could measure the start of the whole move at the beginning of the cycle, to where the market topped at stage three. You could then calculate the 61.8% retracement (see lesson on Fibonacci). This would give you a downside target to aim for, and if there was enough meat left in the trade - initiate a short trade.

Stage four can be difficult as the market may either go into consolidation again or continue down.

So how can this help your trading? Well, the first thing to do before you enter a trade is decide where in the cycle you are. If you are at stage two, then it could be dangerous to go short. It could also be dangerous to enter short if stage two had been building for a long time. Remember, the market can’t go up (or down) forever.

On the other hand, if we were entering stage four, you wouldn’t want to be long. Just by identifying the different stages of the market, it can help you lock in profits, and to make better judgments and decisions on whether you should be in the market at all, and perhaps give you clues for entry and exits.

D. Large, Round Figures Focus

Many traders, from the individual speculator to the large fund, will focus on the large round figures or round numbers when applying their analysis to the FX-market, for a number of reasons. Option traders tend to select these price levels, whether they’re exercising American, European, or Exotic options, as well as the placement of protective stop orders.

For that reason, the “large round figure,” such as 1.3100, or 1.3250, generally carry a greater weight of importance. However this can be deceiving, as the market will often spill over, to trade slightly above or below a price level of importance. For that reason, we should naturally expect the ultimate highs and lows to rest at times slightly beyond these areas. We should watch the market as it approaches and fails to break beyond a large round figure, even if we can not take the exact figure literally.

E. Intersecting Lines: Multiple Signs of Confirmation

Every technical indicator and trading technique allows us the chance to see the market through a specific angle or point of view. These indicators, standing alone, may not provide accurate buy and sell signals, as the market is very much multi-dimensional.

However, simple chart analysis allows us to isolate those points on the chart where multiple signals agree. At these points, our probabilities of being “right” increase in our favor, as the market moves somewhat under the influence of a “self-fulfilling prophecy.”

As more traders note the same signals, this implies a greater amount of buy and sell orders, which inevitably drives the market higher or lower.

With this in mind, one of the most widely used and easiest approaches is the use of trend-lines. This can take the form of horizontal lines extending from left to right on the chart, diagonal sloping lines, and Fibonacci retracement lines. These large numbers may represent a degree of either support or resistance, as many traders and institutions tend to use these price levels as a basis to buy and sell.

More importantly, this horizontal line may also intersect with the 38.2% Fibonacci retracement level drawn from recent highs. Furthermore, our former support line (which often times becomes new resistance), also may intersect these two lines, at nearly the same time.

It is important to note, that these lines may not necessarily meet at the same “exact” price level. However, within a matter of 20-30-pips, every line may meet, and at nearly the same spots on the chart. Further, as the current trend appears to be to the downside or upside, traders who choose to sell-short or buy long, have the benefit of trading in the same direction as the overall trend.

See Multiple Signs Of Trade Confirmation And Confluence In Your Charts

F. Intra-day Trading Tactics

By intraday, I mean very short time frames such as 5, 15, and 30 minute charts, as well as hourly charts. This will apply to traders who actively trade and probably trade frequently during the course of the day.

Regardless of what technique you use to enter and exit the market this approach will aid you in deciding if you are on the wrong or right side of the market.

The first thing you should do when trading intraday, regardless of the security, is to have some general idea of where the market has been recently. You can not start the day with a strong directional bias. The reason you cannot start the day with a strong bias, is that intraday, the markets can be very volatile, and if you have stubbornly decided the market will go one way, and it starts to go another, you will find it difficult to change direction.

This is because you will try to convince yourself that the move against you is temporary.

To overcome this directional bias, I use the following discipline to help tell me when the market is doing something different from what I expect. To analyze the market, first think of what happens in a typical up trend or down trend.

Let’s say that in an up trend, the last two days have made higher highs and higher lows. The close has also been higher for the last two days.

In order for that little up trend to continue, what should happen?

For the up trend to continue on day 3, you would expect a higher low, a higher high, and a higher close, right! So let’s look at what should happen on the third day.

On day 3, I would first like to see a low in place in the early part of the day. I often find that when an up trend is continuing, the low is made first. In a down trend, I like to see the high of the day made in the early part of the session.

We had the open, then early in the day a low was made. As the day progressed, the high of the day was made towards the later part of the day, and then finally the close.

So how does this information help me? Well, if for example the low of day three continued lower than the low of day 2, I would begin to wonder if the market was retracing or reversing.

If the low of day three took out the low of day 2 when I expected it not to, I would stand aside until I had a clearer picture of where the market was headed. It may just be that the market will continue up after making a low, lower than day 2, but why take the risk?

I also like to see the low of day 3 tested in some way. If a low was made, then the market made some progress upward, and then came back down, to near the newly formed low, where it found support (buyers).

This is a great indication that there is some demand at that level, and gives me an opportunity to enter the market with very little risk, as I can place my stop under the newly formed low.

As openings can be volatile, I like to watch the first 30 minutes to 60 minutes, to see how the market is shaping up, before taking a position. I start with no definite directional bias, but I am aware of what has been happening in the last few days, and if it does what I assume it will do, then I am ready to take action.

If it does not do what I assume it will do, then I know that I may have misread the market, and am ready to rethink my tactics for the rest of the day. As you should know by now, the market is always right, so it’s OK to have an opinion, but don’t get married to it.

If the market takes out the low of day 2, stand aside and rethink your approach for the rest of the day, particularly if the move is a strong move in the opposite direction from where you thought the market would go.

The one thing you shouldn’t do, is wake up thinking that the market is going up (or down), and just keeps trading in that direction. Don’t fight the market, it will always win. Just go with the flow, and realize when things are not going your way.

Chapter 8: Forex 1-2-3 Trading Method

Forex 1-2-3 Trading Method

This particular technique has been around for a long time, and I first saw it used in the futures market. Since then, I have seen traders using it on just about every market, and when applied well, can give amazingly accurate entry levels.

Let's start with the basic concept. During the course of any trend, *either up or down*, the market will form little peaks and valleys.

The problem is, how do you know when to enter the market, and where do you get out? This is where the 1-2-3 method comes in.

First, we add an indicator. You could use just about any indicator with this method, but my preferred indicator is MACD, with the standard settings of 12, 26, and 9.

A "Short" Or Down-trend 1-2-3 Trade With MACD

The rules for the trade are as follows:

Up-trend

This works best as a reversal pattern, so, for an "up-trend" trade, identify a previous down-trend, as seen in the chart below.

Wait for the MACD to signal a buy, and for the 1-2-3 set up to be in place.

As the market pulls back to point 3, the MACD should remain in buy mode, or just slightly dip into a sell position.

Place a buy entry order 1 pip above point 2.

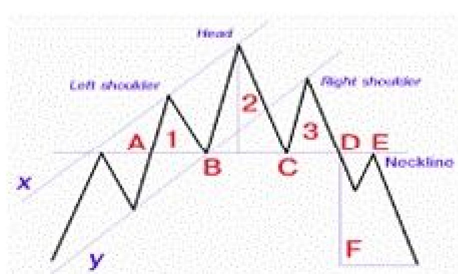
Place a stop loss order 1 pip below point 3.

Measure the distance between point 2 and 3, and project that forward for your exit.

Point 3, should not be lower than point 1.

The reverse is true for "short" trades, as seen in the first chart above. As the market progresses, you can trail your stop to 1 pip above the most recent high, with the price trending lower (most recent low in an uptrend). You can also use a break in a trend line as an exit, or a reversal.

There are a lot of variations on the 1-2-3 setup (a.k.a. "ABC"), but the basic concept is always the same. Try experimenting with it on your favorite time frame. Also, note the "head and shoulders" pattern formation, which can also be upside down.



Chapter 9: Trading The News

Trading the News

During economic or geopolitical news releases the spreads will widen. This is a fact of the interbank market. Until the number is released and the impact is factored into the prices, the spreads will fluctuate. In the case of significant economic releases, like non-farm payroll, there could be a significant gap from the price of a currency and the price immediately after. I have seen a gap on the GBP/USD of 150 pips several years ago.

Basically, what occurs right after a release is all of the “offers” in the market go away from the current price. Banks can move their offers significantly from where it was prior to the release. If you have a resting order such as a buy stop or sell stop, those stop orders are activated, and turn into market orders, and then are filled at the current prevailing market price.

A buy stop or sell stop is not a guaranteed order at a certain price. It simply turns into a market order when it is activated and it then filled at the current prevailing price. The actual fill on a buy stop or sell stop could vary significantly from the original order price during significant market moves or gaps, during an economic release like non-farm payroll.

Trade Using News: 5 Most Watched Indicators

Currencies do not become weaker or stronger randomly. A large portion of a currency’s value is based on confidence in the economic strength of the country. Economic strength is judged by certain key indicators that are closely watched in FX trading. When these economic indicators change, the value of a currency will fluctuate. A currency is a proxy for the country it represents and the economic health of that country is priced into the currency.

Fundamental releases have become increasingly important market movers. When focusing on the impact that economic numbers have on price action in the FX market there are 5 indicators that are watched the most because of their potential to generate volume and to move prices in the market.

Why Does Economic News Impact Short-Term Trading?

The data itself is not as important as whether or not it falls within market expectations. Besides knowing when all the data is released, it is vitally important to know what economists are forecasting for each indicator. For example, knowing the economic consequences of an unexpected monthly rise of 0.3% in the Consumer Price Index, the "actual" data is not nearly as vital to your short-term trading decisions, as it is to know that this month the market was looking for CPI to fall by 0.1%, or, the "Consensus."

Analyzing the longer-term ramifications of an unexpected monthly rise in prices can wait until after you've taken advantage of the short term trading opportunities presented by the data typically within the first thirty minutes following the release. Market expectations for all economic releases are published on your broker's calendar, and you should track these expectations along with the release date of the news data.

Average Pip Ranges	
1	Non Farm Payrolls - Unemployment **Avg. Move: 124 Pips**
2	FOMC Interest Rate Decisions **Avg. Move: 74 Pips**
3	Trade Balance **Avg. Move: 64 Pips**
4	CPI - Inflation **Avg. Move: 44 Pips**
5	Retail sales **Avg. Move: 44 Pips**
	* Data from www.DailyFX.com (Make sure you check for updates over time.)

1. Non Farm Payrolls – Unemployment

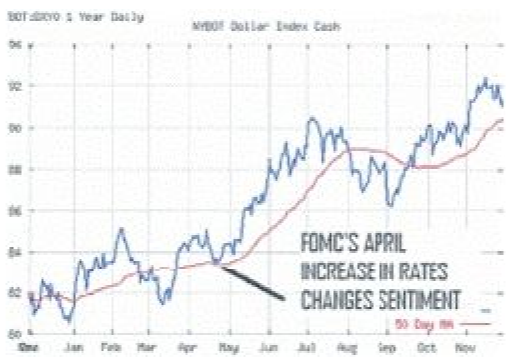
The unemployment rate is a measure of the strength of the labor market. One of the ways analysts gauge the strength of an economy is by the number of jobs created, and the percentage of workers unable to find jobs. Strong job creation is indicative of economic growth, as companies must increase their workforce in order to meet demand.

Release Schedule: First Friday of the month at 8:30am EST

2. FOMC Interest Rate Decisions

The Federal Open Market sets the discount rate, which is the rate at which the Federal Reserve Bank charges member banks for overnight loans. The rate is set during the FOMC meetings by the regional banks and the Federal Reserve Board.

Release Schedule: 8 meetings scheduled per year. Date is known in advance so check the economic calendar on your broker platform.



3. Trade Balance

The balance of trade measures the difference between the value of goods and services that a nation exports and the value of goods and services that it imports. A trade surplus results if the value of exported goods exceeds that of imported goods, whereas a trade deficit exists if imported goods exceed exported goods.

Release Schedule: Generally released around the middle of the second month following the reporting period. Check the economic calendar.

4. CPI – Consumer Price Index

The CPI is a key gauge of inflation, as it measures the price of a fixed basket of consumer goods. Higher prices are considered negative for an economy, but since central banks often respond to price inflation by raising interest rates, currencies sometimes respond positively to reports of higher inflation.

Release Schedule: Monthly - around the 13th of each month at 8:30am EST

5. Retail Sales

Retail sales are a measure of the total goods sold by a sampling of retail stores. It is used as a gauge of consumer activity and confidence as higher sales figures would indicate increased economic activity.

Release Schedule: Monthly - around the 11th of each month at 8:30am EST.

News Trade Recap

The following is typical price action for the complete news trade:

1. Price is usually pivot bound during the London session.

2. A few hours before the news release, price tends to trickle in the direction of market expectations.

3. Immediately upon the news release, price reacts dramatically.

4. Price will usually retrace as much as 50 to 75% of the initial move as profits are taken. (This usually occurs in less than 15 minutes).

5. Price will then continue in its original direction of the news release.

6. Price finally settles at either a round number, a pivot or both.

Chapter 10: Contrarian Signs In Dollar Sentiment

Contrarian Signs In Dollar Sentiment

The market rewards those on the side of surprise. Traders, particularly in Forex, try to avoid surprises. This is not in itself surprising because joining the crowd, is a defensive action that occurs everywhere in nature. A swarm of bees, a flock of birds, and a herd of sheep, provide individual members protection by being part of the larger group. Perhaps it's time to look beyond the comfort of the crowd.

Here are the contrarian signs of the beginning of the end of the U.S. Dollar bull crowd. (This was originally written in 2004, and it is now 2010. I left it mostly in its original form to show that patterns – over time – repeat.)

1. Gold patterns - Gold has been reaching new highs, and while profit taking will occur, what is significant is not the price point, but how it is getting there. In the current scenario, Gold's move is not a flight to safety from the dollar (in 2004), but one that reflects investment demand for alternative assets and a re-allocation away from currencies (in 2010-2012 it IS a flight to safety). The precious metals have been attracting significant fund and commodity-related purchases. Buying Gold is a way of shorting currencies. The Gold versus Yen relationship demonstrates an inverse relationship at times. The current bull sentiment for Gold may very well be a fundamental source of non-dollar sentiment. It may be the early sign of a non-dollar assets becoming more attractive. Gold is still in the valley, higher in pricing elevation than it was, but not on the peak of pricing.

2. U.S. Dollar Index - The USDX, after reaching highs of this year (2004), is now retracing toward its 50 day moving average. A direct probe of this Moving Average may be a precursor to a further retracement of the dollar. (Notice how "cycles" repeat, as we saw it again in 2010. 2011 is seeing the USD weaken further, due to "monetary easing." http://www.theice.com for the USDX.)

3. Price Sensitivity to Weak Dollar News - If the USD bull is getting tired, the first sign we will see, is when economic news comes out and the immediate reaction to that news is negative. We recently saw the dollar decline to a 4 week low on news that existing home sales fell 2.7%, to a slower-than-expected annual rate of 7.09 million. The reaction was a flow of funds away from the dollar, to move the EUR/USD nearly 200 pips. Of course, much of this move has been given back. This is showing increase in the volatility of sentiment focused on these news releases, and that the crowd around the dollar bull is becoming the loser. (Originally written in 2004. Housing and weak Dollar news still applies today – 2011 – and tomorrow.)

4. Wall Street Journal v. Financial Times - In the past, we have had two contrasting editorials. The Wall Street Journal printed an editorial "The Go-Go Greenback," in honor of the bullish dollar. The editorial remarks that the "U.S. prospers with a dollar that has surprised the markets with its relative strength." But the Financial Times titled its editorial- "Entering the neutral interest rate zone." "It is not the end, but it is the beginning of the end. The latest minutes show that the Federal Reserve has entered what it expects to be the final phase of the interest rate tightening cycle that began in June 2004." Currently, in 2011, the rates have already bottomed, and have been low and are remaining low. We all know what has happened from 2007 to present, and the Euro and the U.S. Dollar are both taking their collective lickings presently.

There are elements of value in each editorial and in each paper. But they contrast each other in another respect. The Wall Street Journal's editorial is looking backward, while the FT is looking ahead. Basic trend analysis of the USDX can confirm a bullish or bearish sentiment, cutting through the haze of "news" stories.

Differing views are a constant, so learn to read "between the lines."

I purposely left the above (and below in the next chapter) "dated" paragraphs intact on purpose (from my previous best-seller version that sold thousands of copies), when I updated this new forex ebook, complete with "thoughts from the past." It shows you how easily economies can change and cycle back and forth.

Currently, the Euro is in trouble, because of the Greece and European contagion, but alas, ALL currencies seem to be reeling as well. Time changes everything – and nothing. AND, the U.S. Dollar is again trying to strengthen short term – think "cycles" here, with the contrarian indicators above, that worked yesterday, that still work today, and will work tomorrow too.

5. Thirty Minute Ranges Are Tradable - What should the Forex Trader conclude? How can we benefit from the current turbulence in dollar sentiment? In periods of transition, where fundamental forces such as interest rate differentials are changing, shorter time frames to judge sentiment provide adequate opportunities to trade. The Forex Trader should be ready to taken on moments of opportunity. In the Forex markets, the often overlooked 30 minute patterns can potentially demonstrate wider ranges and trading opportunities. It is worth looking at 30 minute charts briefly, and as a trading time frame alternative, as previously mentioned. See also the charts below on the probabilities concerning time period charts, as seen on the http://www.ibfx.com trading platform.

Chapter 11: Intermarket Dynamics – Forex Insight On Gold

Intermarket Dynamics - Forex Insight On Gold

The price action in Gold has been the focus of deserving attention, yet further insight can be gained from an inter-market perspective.

The usual historical inverse relationship between the USDX, U.S. Dollar Index, and Gold has been out of sync at times. Both gold and the dollar have been strengthening (in 2004 and 2010, although not always in lock-step). Is this an omen for a dollar retracement and a Gold sell off? In 2010, both occurred. There was also news of gold and silver manipulation, and JP Morgan Chase is under investigation. Gold is now stronger in 2011 and breaking all-time high price records.

The recent Gold buying (2004) has been sourced to be from the TOMOC (The Tokyo Commodity Exchange) as Japanese investors looked to hedge against a very weak Yen. So quite significantly, on the TOMOC exchange, Gold futures went limit down, after 8 days of gain. Is this profit taking or a clue to further Yen strengthening? The fundamentals are beginning to color technical sentiment, as a new Tanken Report may reflect business sentiment rising. (2010-2011 sees Japan and China [and its citizens] buying gold like crazy, divesting themselves away from U.S. Dollars.)

A Bloomberg story reports (2004) that “The Bank of Japan will say on Dec. 14 that its *Tanken Confidence Index* climbed to 23 in the third quarter from 19 in the second, according to the median forecast of 26 economists in a Bloomberg survey.” At the same time the Bank of Japan is signaling an end to the zero interest rate policy in Japan which has been a major driver of a weakening Yen.

Let’s add to this mix of analysis another factor- China. The Chinese are signaling clearly that they will allow their currency, the Renminbi Yuan, to further strengthen. A stronger Chinese currency means more demand for Japanese goods, and is another positive factor for a strengthening Yen. (“Renminbi” means the “people’s money.”)

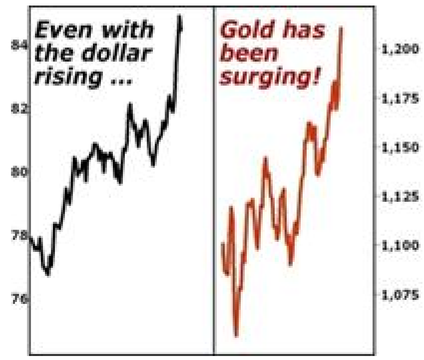
The inter-market Gold puzzle gets more interesting when you see the Aussie/Yen cross and Gold Patterns. The Aussie has strengthened against the Yen in tandem with the move in Gold. (Australia, New Zealand, and Canada are “resource” currencies.)

What can we conclude about the Gold moves from the perspective of currency trading opportunities? The Forex trader need not try to predict where Gold is going, (and as of 2011-2012, it’s a pretty easy outlook to see – UP), but should be ready for the opportunities to trade the currency pairs in response to what Gold will be doing. An inter-market perspective shows currently (2011), that most currencies are weak – so watch for any currency pairs to break this weakening pattern to the upside, if and when gold weakens.

While the majority of Forex traders pay attention to the popular Euro, it may be wise to look East to Asian currencies as well. It would pay dividends to also look at the AUD, NZD, and CAD “resource” currencies and pairings that include them. (Good advice in 2004 AND 2010-2011.) In sum, the more things change, the more they remain the same.

1995 To 2005 – “Inverse Relationship”

2010 – “Decoupling During High Volatility”



Have a little fun – search Google on "gold" and map the ups and downs – mostly North in pricing. See the interrelationships of gold and the dollar over a short history – a familial memoir of sorts.

Chapter 12: “Carry Trades”

“Carry Trades”

Let’s look at the famous (but little understood) “carry trade.”

Let’s consider which currencies we’re going to trade. There are over a hundred currencies in the world-from the Brazilian *real* to the Thai *baht*. Yet, in the spot market, there are only eight major currencies.

These are the currencies that experience the most volume and therefore tend to have narrower spreads when paired with the dollar or each other. These are also the preferred currencies which almost every FX dealer trades. They are:

The U.S. Dollar
The Euro
The British pound
The Japanese yen
The Swiss franc (a.k.a. the “Swissie”)
The Canadian dollar (a.k.a. the “Loonie”)
The Australian dollar (a.k.a. the “Aussie”)
The New Zealand dollar (a.k.a. the “Kiwi”)

Most trades in the spot market involve the dollar in one way or another. You’re either long the USD (bullish on it) or short the USD (bearish on it). You can bet your bias with any one of these currencies. The most prevalent pairing, by far, is the euro-dollar.

In any case, whenever you trade currencies, you’re always working in pairs. You’re long one currency and short the other. When you trade two currencies other than the USD, that is called a “cross trade.”

For instance, you might be long the Canadian dollar and short the Japanese yen. This trade would be referred to in writing as “CAD/JPY” because, by convention, that’s how this currency pair is traded, with the Canadian dollar first and the Japanese yen second.

To keep things simple, for this pairing example, Canadian dollars are quoted in terms of yen.

So, let’s say the CAD/JPY is at 101.8711. That means the Canadian dollar is worth about 102 yen. Now, logically, you could also say the yen is worth 0.98 Canadian cents. If you look at a table of cross rates, in fact, you’ll se the CAD value in yen expressed as 101.8711 and the yen’s value in CAD expressed as 0.0098.

But the convention is simpler. For this pair, the relationship between the currencies is expressed in terms of the Canadian dollar’s worth in yen.

For all pairings, in fact, the convention is that the first currency mentioned is called the base currency, while the second is called the counter currency. So, in writing you might see someone mention they’re “long the CAD/JPY” or “short the CAD/JPY.” Verbally, you might hear these same positions referred to being “long the CAD-YEN” or “short the ***CAD-YEN.”***

In the first case, it simply means you expect the Canadian dollar to rise against the yen. In the second case, it means you expect the opposite: that the yen will rise against the Canadian dollar. But in both cases, the trade would be quoted in terms of CAD/JPY, the Canadian dollar’s value in terms of yen. In fact, when looking at any pair, the trade will always be expressed in terms of the counter currency, or to make it even easier - remember the currency at the end of the pair.

So let’s take a moment to walk through a CAD/JPY trade.

Two Ways to Profit: Net Interest and Appreciation

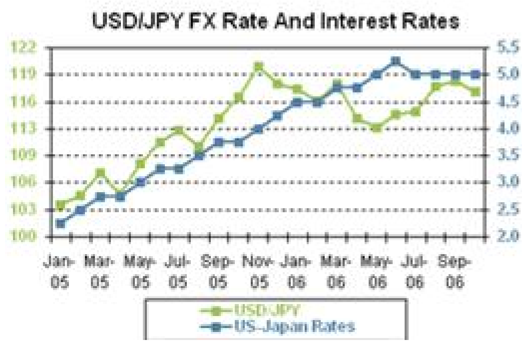
If you’re long the CAD/JPY, that means you’ll receive interest directly into your account on a daily basis at the Canadian central bank rate. Let’s say that’s 4.25%. At the same time, however, you’ll be charged interest on Japanese yen. Let’s say that’s very close to 0%.

So if you entered this position with 100% cash (that is with no “leverage” or borrowed money) you would net the interest rate difference. In this case, you’d be on track to make 4.25% a year from the spread... as long as the exchange rate between the currencies didn’t change.

Now if the Canadian dollar went down 4.25% against the yen over the course of a year, your net gain would be zero. You gained 4.25% in net interest but lost 4.25% in depreciation on the actual “spot pricing” of the pair.

And if the Canadian dollar went up 5% against the yen over a year, your total gain would be nearly 10%. Half of that profit would be from interest, and half from appreciation in capital at the spot rate.

That example is with all cash. If we add leverage to the mix, your returns can be greatly magnified.



Leverage: a Double-Edged Sword in the Spot Market

In the spot market you can borrow money, just as you can in the stock market. However, you can borrow a lot more money against your capital in the spot market. And you can choose among various interest rates.

In the stock market, maximum leverage is typically 2-to-1. For each dollar of cash you have you can invest up to a total of $2, with one of those dollars loaned to you by your brokerage at a given interest rate.

In the spot forex market, however, you can use leverage of up to 100-to-1. So for every dollar you have in an account, you can control $100 worth of currency. And the interest rate you pay depends on which currency you're borrowing.

So let's get back to our CAD/JPY trade to see how this works.

Let's say you put $2,000 in your spot market account and went long CAD/JPY at leverage of 50-to-1. You're credited interest on a daily basis at a rate of 4.25% a year. Your cost of borrowing yen is basically zero. So your net credit is 4.25%. But it's 4.25% of $100,000, not 4.25% of $2,000.

At the same time, the Canadian dollar rose 5%, remember. But, because you used leverage, you're getting 5% of $100,000, not 5% of $2,000.

So now, your total gains are $10,000. And your total investment (and maximum risk on this trade) was just $2,000. You made 500% profits. And you pocketed five times your initial maximum risk.

Just a 1% move against you now equals a drawdown of $1,000 since 1% of $100,000 is $1,000. That $1,000 equals half your entire capital in the trade. So you're taken out. End of trade. You lost half of the capital you allocated here.

That's why you have to be careful with leverage. Most successful traders in the spot market don't employ leverage of more than 10:1 to 50:1. That gives you room for the market to fluctuate while keeping you in your trade for a good profit potential.

For instance, at 10-to-1, your $1,000 controls $10,000 worth of Canadian dollars. If the market moves against you 5% initially, that's only a draw down of $500 since 5% of $10,000 is $500. You're still in the trade. If the market recovers and then goes your way, you can still double your initial investment on a 10% total gain (interest and appreciation).

While the **Commodity Futures Trading Commission (CFTC)** has proposed limiting leverage to 10:1, you may have noticed that 200:1 leverage is still available outside the U.S. The CFTC's proposal is the equivalent of putting a 15-mile-per-hour speed limit on a superhighway, and many U.S. traders have responded by simply moving their accounts to the U.K. affiliates of U.S. brokers.

Effective November 30, 2009, they will be **requiring U.S.-based retail forex brokers to cap available leverage at 100:1**. To quote the notice to members:

"…beginning on November 30, 2009, all FDMs must collect a customer security deposit of at least 1% for the currencies listed in Section 12 and at least 4% for all other currencies."

The Section 12 currencies are the majors and some of the big European regional ones: British pound (GBP), the Swiss franc (CHF), the Canadian dollar (CAD), the Japanese yen (JPY), the Euro (EUR), the Australian dollar (AUD), the New Zealand dollar (NZD), the Swedish krona (SEK), the Norwegian krone (NOK), and the Danish krone (DKK). The US dollar (USD) is not specifically listed, but obviously it's included.

UPDATE: The CFTC has now limited Forex leverage to 50:1, effective October 18, 2010. A 2% security deposit is required for the major currency pairs, and a 5% security deposit is required for all other currency pairs. The NFA will enforce these new rules. The CFTC, based on the Dodd-Frank Wall Street Reform and Consumer Protection Act, will also limit retail forex trading access to non-U.S. dealers.

The world famous "Carry Trade" is available to Individual Investors

The example we just used is a carry trade. That's when you borrow in a low-yielding currency and invest in a high-yielding currency to collect the net difference in interest, plus (hopefully) currency appreciation in the spot price.

The carry trade has been a major money maker for hedge funds over the last ten years. These funds have borrowed yen at near zero interest rates and invested them in higher-yielding currencies, as well as in the bonds of higher-yielding currencies.

Now, this same strategy is available to individual investors. But you have to be careful. Remember that it's not just the difference in interest rates that affects currencies - it's the direction of their difference.

This is why it's a good idea to "demo trade." Most major online forex dealers have software you can download for free, and trade on a demo account, with no money at risk. This way, you can become comfortable with the basics and mechanics of the spot market, before putting real money on the line.

Carry trades suffered from 2008 to the first quarter of 2010, due to the world-wide financial problems – currencies weakened, and interest rates lessened, while traders sought safe havens for their cash.

In 2010, with an "expected growth mode" in global economic conditions, carry trades appeared to be working again, especially with the currency pairs showing price appreciation, as well as rising interest rates – look to emerging "BRIC" markets like Brazil, Russia, India, China. Buying the "INR" exchange traded fund (etf) is one way of trading the Indian rupee against the U.S. dollar. The Brazilian real's (BRL) current interest rate, for example, is 8.75%, providing one of the highest interest rate differentials against the USD or the yen. Also, the Brazilian "Bovespa Index" just experienced a 22 month high, showing increased demand for Brazilian assets ("fundamentally" sound data to assist a trader's decision process). As of 2011, currencies are in global crisis, with low interest rates. Not good for carry trades. Know your economic climate!

The Russian ruble (RUB/USD) has also become a carry trade target, with both a high interest rate (currently 8.25%, as of 5-2010), as well as strength correlated with bullish oil market fundamentals.

While using "exotic" currencies can produce larger interest rate differentials, they also bring added volatility and liquidity risks, which must be considered.

More "traditional" carry trades involve the AUD and NZD (Australian & New Zealand dollars) versus the yen, because they offer higher interest rate differentials, more often than not, against the yen, as well as lower volatility and risk and higher liquidity. Also consider the USD against the yen again, as in the past, if the U.S. economy recovers more quickly than Japan's economy fundamentally, and the Federal Reserve raises interest rates to more acceptable interest rate differentials, as compared to the very small differential right now (5-2010). As the FED becomes more "hawkish", interest rates are likely to widen. You now get the basic idea of a good carry trade; good currency fundamentals + good interest rate differential(s) = good carry trade potential.

The carry trade, like any other trade, doesn't guarantee profits, and in many cases can set up large losses if/when it goes against you. But when forex markets are following traditional fundamentals, the carry trade offers good and steady returns when followed properly.

You can also participate in a "managed" carry trade using "G10" currencies (including the U.S. dollar, the euro, the Japanese yen, the Canadian dollar, the Swiss franc, the British pound sterling, the Australian dollar, the New Zealand dollar, the Norwegian krone and the Swedish krona), and without spot trading, by investing with Barclay's Bank PLC, in their USD Intelligent Carry Index (this is an "exchange traded note or etn", with the symbol "ICI", traded with iPath at http://www.ipathetn.com/ICI-overview.jsp. eSignal also has an "ICI" indicator).

Chapter 13: Forex Money Management

Forex Money Management

Money management is a critical point that shows difference between winners and losers. It was proved that if 100 traders start trading using a system with 60% winning odds, only 5 traders will be in profit at the end of the year. In spite of the 60% winning odds, 95% of traders will lose because of their poor money management. Money management is the most significant part of any trading system. Most traders don't understand how important it is.

It's important to understand the concept of money management, and understand the difference between it, and trading decisions. Money management represents the amount of money you are going to put on one trade and the risk your going to accept for this trade.

There are different money management strategies. They all aim at preserving your balance from high risk exposure.

First of all, you should understand the following term Core equity
Core equity = Starting balance - Amount in open positions.

If you have a balance of $10,000 and you enter a trade with $1,000 then your core equity is 9,000. If you enter another $1,000 trade, your core equity will be $8,000

It's important to understand what's meant by core equity since your money management will depend on this equity.

We will explain here one model of money management that has proved high annual return and limited risk. The standard account that we will be discussing is $100,000 account with 20:1 leverage. Anyway, you can adapt this strategy to fit smaller or bigger trading accounts.

Money management strategy

Your risk per a trade should never exceed 5-12% per trade. It's better to adjust your risk to 1-4%.

A risk of 1-4% is preferred, but if you are confident in your trading system, then you can adjust your risk up to 5-12% (12% is high risk trading any security).

1% risk of a $100,000 account = $1,000

You should adjust your stop loss so that you never lose more than $1,000 per a single trade.

If you are a short term trader, and you place your stop loss 50 pips below/above your entry point.

50 pips = $1,000

1 pips = $20

The size of your trade should be adjusted so that you risk $20/pip. With 20:1 leverage, your trade size will be $200,000.

If the trade is stopped, you will lose $1,000 which is 1% of your balance.

This trade will require $10,000 = 10% of your balance.

If you are a long term trader and you place your stop loss 200 pips below/above your entry point.

200 pips = $1,000

1 pip = $5

The size of your trade should be adjusted so that you risk $5/pip. With 20:1 leverage, your trade size will be $50,000.

If the trade is stopped, you will lose $1,000 which is 1% of your balance.

This trade will require $2,500 = 2.5% of your balance.

This is just an example. Your trading balance and leverage provided by your broker may differ from this formula. The most important point is to stick to the 1-2% risk rule. Never risk too much in one trade. It’s a fatal mistake, when a trader loses 2 or 3 trades in a row, if he is then confident that his next trade will be a winner then he may add more money to this losing trade. This is how you can blow up your account in a short time! A disciplined trader should never let his emotions and greed control his decisions.

Diversification

Trading one currency pair will generate a power of focus for you. It would not be better to diversify your trades between several currencies, as you will lose your focus (if a beginning trader especially). If you do, and you have $100,000 balance, and you have open positions with $10,000 then, your core equity is $90,000. If you want to enter a second position, then you should calculate 1% risk of your core equity, not of your starting balance! It means that the second trade risk should never be more than $900. If you want to enter a 3rd position, and your core equity is $80,000, then the risk per 3rd trade should not exceed $800.

It’s important if you diversify your orders between currencies that they have low correlations.

For example, if you are “long” EUR/USD, then you shouldn’t be long GBP/USD, since they have a high correlation. If you are long with both EUR/USD and GBP/USD positions and risking 3% per trade then your risk is really 6%, since the trades will tend to move in the same direction.

If you want to trade both EUR/USD and GBP/USD, and your standard position size from your money management is $10,000 (1% risk rule), then you can trade $5,000 EUR/USD and $5,000 GBP/USD. In this way, you will be risking 0.5% on each position.

The Martingale and *Anti-Martingale Strategy*

It’s very important to understand these 2 strategies.

Martingale rule = increasing your risk when losing! ***DON’T*** *do this!!*

This is a strategy adopted by gamblers which claims that you should increase the size of your trades when losing. It’s applied in gambling in the following way. Bet $10, if you lose, bet $20, if you lose, bet $40, if you lose, bet $80, if you lose, bet $160, etc.

This strategy assumes that after 4 or 5 losing trades, your chance to win is bigger so you should add more money to recover your loss! The truth is that the odds are the same in spite of your previous loss! If you have 5 losses in a row, still your odds for the 6th bet are 50:50!

The same fatal mistake can be made by some novice traders. For example, if a trader started with a balance of $10,000 and after 4 losing trades (each is $1,000) his balance is $6000. The trader will think that he has higher chances of winning the 5th trade, then he will increase the size of his position 4 times to recover his loss. If he loses, his balance will be $2,000!! He will never recover from $2,000 to his starting balance $10,000.

A disciplined trader should never use such gambling methods, unless he wants to lose his money in a very short time.

<u>Anti-martingale rule = increase your risk when winning, and decrease your risk when losing.</u>

This means that the trader should adjust the size of his positions according to his new gains or losses.

Example: Trader A starts with a balance of $10,000. His standard trade size is $1,000.
After 6 months, his balance is $15,000. He should adjust his trade size to $1,500.

Trader B starts with $10,000. His standard trade size is $1,000.
After 6 months his balance is $8,000. He should adjust his trade size to $800.

High return strategy

This strategy is for traders looking for higher return and still preserving their starting balance.

According to your money management rules, you should be risking 1% of you balance. If you start with $10,000 and your trade size is $1,000 (Risk 1%). After 1 year, your balance is $15,000. Now you have your initial balance + $5,000 profit.

You can increase your potential profit by risking more from this profit while restricting your initial balance risk to 1%. For example, you can calculate your trade in the following pattern:

1% risk $10,000 (initial balance) + 5% of $5,000 (profit).

In this way, you will have more potential for higher returns, and at the same time, you are still risking 1% of your initial deposit.

More on Calculating Profit and Loss

For ease of use, most online trading platforms automatically calculate the P&L of a trader’s open positions. However, it is important to review and understand how this calculation is derived. (Review Section 2 for more details on profits/losses.)

To illustrate a typical FX trade, consider the following example. The current bid/ask price for EUR/USD is 1.2320/23, meaning you can buy 1 euro with 1.2323 U.S. dollars or sell 1 euro for 1.2320 U.S. dollars.

Suppose you decide that the Euro is undervalued against the U.S. dollar. To execute this strategy, you would buy Euros (simultaneously selling dollars), and then wait for the exchange rate to rise.

So you make the trade: to buy 100,000 Euros you pay 123,230 dollars (100,000 x 1.2323). Remember, at 1% margin, your initial margin deposit would be $1,232 for this trade.

As you expected, Euro strengthens to 1.2395/98. Now, to realize your profits, you sell 100,000 Euros at the current rate of 1.2395, and receive $123,950.

You bought 100k Euros at 1.2323, paying $123,230. You sold 100k Euros at 1.2395, receiving $123,950. That’s a difference of 72 pips, or in dollar terms ($123,950 - $123,230 = $720).

Total profit = U.S. $720

TIP: When trading any USD counter currency pair, each pip is worth $10 per $100,000 standard size lots.

Chapter 14: Fundamentals Of A Good Trading Plan, Including My Pro Forex Trading Plan

Fundamentals Of A Good Trading Plan, Including My Pro Forex Trading Plan

Establish a trading plan, and define specific risk and profit objectives before trading. *Refer to your free trading plan outline below and tailor it to <u>your</u> specifics.* Maintain the necessary discipline to follow that plan through both good and bad times. Successful traders will agree that discipline contributed more to their success than their trading philosophy by itself. Remember, that the key to any plan is how well it holds, and how well you hold to it, over time.

There is no "sure thing," and there is no trading system that is 100% accurate. Your goal, as a trader, is to use the tools available, and to try to develop an edge. Base your trades on sound fundamental and technical reasoning, rather than on hunches and long shots. If you can develop an edge, however small, over time, you will be successful.

A trader must be able to admit they have made a mistake. Do not become emotionally or financially committed to a losing trade. Avoid the pitfall of becoming emotionally involved with any trade.

An investing edge is only part of the equation. A trader should diversify sufficiently so that the growth in equity can be consistent and the likelihood of a catastrophic loss can be diminished. The lower the percentage of a traders account dedicated to any one trade the greater the chance of the trader being successful. Even if the trader has a perceived investing edge, it is unwise to run the risk of ruin, and bet it all on one trade. The goal is not only to make money, but also to be able to continue to make money consistently for an extended period of time. A trader must learn the basic concepts and the importance of money management.

Lack of experience in the market causes many traders to make the mistake of taking small profits and letting losses run. Fundamental trading wisdom dictates the exact opposite. When in a winning trade, be patient and fully capitalize on the success. The trading axiom is, "cut your losses short and let your profits run."

A trading system does not have to be difficult, time consuming, complicated and stressful in order to be profitable. In trading systems, as in many other things in life, simple can be better.

As a trader, be cautious, and never let greed take control of a winning position.

Learn from your trading mistakes. Never make a trading mistake without asking yourself why.

Do not make trading decision based solely on margin requirements, and always trade within your capabilities. Remain true to your trading plan and follow the trading style that works best for you.

Do not trade markets that you don’t understand. Trade with confidence and conviction. Trade only with risk capital, and be aware of the risk of losing. Never risk more than 12% of your capital on any one trade (1-5% trades are better, and offer you less risk).

After a long period of success, or a period of profitable trades, try to avoid the natural tendency toward increasing your trading activity. Conversely, use self-discipline when a trade goes against your position. Take your loss and wait for another opportunity. Never increase your trading after a loss.

Avoid getting into the market because you are anxious from waiting and/or out of the market because you have lost your patience. Never over trade and adhere to your risk management rules.

Never change your trade or position in the market without a good reason that is based on fundamental or technical rules, indicating a change in trend.

When the market is moving with your position, and you are using a stop loss order, then raise your stop loss so as to lock in your profit. Protect yourself against the possibility of turning a profit into a loss.

The “trend is your friend,” and never buy and sell if you are insecure of the trend, according to your fundamentals and technical rules. If you are in doubt, then exit the market. Only trade when you feel confident with your trading strategies.

A trader should establish a “surplus account” after a series of successful or winning trades. The goal is to retain the “surplus account” for times of emergency and to preserve your profits.

It is difficult to try and guess where the top and bottom of the market is, instead, let the market prove its top and bottom. Trying to out-guess the market is a losing proposition.

Your free daily **Forex Trading Plan Of Action & Overview Guide** to guaranteed success:

Please use this daily trading plan of action and overview as a guideline, and tailor it to your needs, specific details, and trading style.

1. Trade the **EUR/USD** currency pair price action. Specialize in one to three currency pairs for maximum focus. (Highly liquid, representing 28% of "spot" forex trading.)

A. GBP/USD is somewhat correlated to EUR/USD, but, the GBP/USD pair is more volatile, and could be a good alternate choice for more trading profits.

B. Watch the "Swissie" for profitable set-ups. The Swiss Franc (CHF) is generally a strong currency when the U.S. Dollar is falling.

C. Watch the Canadian dollar (CAD) for possible set-ups. This is also a good currency in times of a free-falling U.S. Dollar. Also known as a commodity currency.

D. The Yen (JPY) can have favorable set-ups. The Japanese government closely "pegs" (unofficially) the Yen to the USD, offering narrower trading ranges, and fewer trading opportunities. They do this to maintain a "weaker" Yen, as the Japanese "make their living" by exporting to the U.S., (as well as to China), so they want their prices to be low and competitive for greater sales revenues.

E. Watch for the Chinese Yuan (CNY) to be further "un-pegged" and revalued as compared to the U.S. Dollar, and to float freely in the markets, providing huge potential trading opportunities in the Yen and "Asian" currencies. Watch for the CNY retail forex currency pair product(s) to appear. Also, watch for future trading opportunities in regards to the Hong Kong Dollar currency (HKD), as this is the last remaining Asian currency to be "un-pegged" and revalued in the future. The CNY can be traded as a futures contract, but it is a high risk security.

2. Trading platform is with www.Interbankfx.com www.FXCM.com www.Oanda.com www.GFTforex.com or your personal choice.

3. Present computer and connection speed is acceptable (or not?). Upgrade when needed. You really need a newer and more reliable computer and high speed connection for speed and accuracy of order placement. There's no excuse for a slow computer or connection.

4. TRADING METHODS:

Trade NEWS & calendar REPORTS, i.e. jobless claims, (un)employment data, trade balance, budget deficits, productivity, Univ. Michigan Sentiment, PPI, CPI, FOMC, interest rates, FOMC comments, consumer confidence, leading indicators, GDP, inflation, money supply, government intervention, IMF and/or World Bank intervention.

News & Reports Tools: http://www.Shirmeyer.com economic calendar, Bloomberg TV and web sites www.Reuters.com http://www.FT.com http://www.fxstreet.com http://www.dailyfx.com and onboard trading platform resources.

Consider gold, silver and commodity prices as USD is generally inversely correlated, especially gold, but watch for erratic market changes and de-coupling from the usual past inverse relationships.

DOW has been somewhat directly correlated to the USDX (U.S. Dollar Index) in the past.

Rely upon mechanical trading triggers and systems and their confirming interrelationships with one another, i.e. Moving Average cross-overs, MACD histogram, Stochastics, RSI, Pivot Points, Candlestick patterns, Fibonacci, Support & Resistance levels.

5. TRADE EXECUTION:

A. Trade directly from your preferred broker platform. Use “15, 30 minute, and 1 hour charts” for trade entry/exit and for current prices for “day trading.” Watch 15 minute, 30 minute, 1 hour charts for trend directions and “confluence” correlations before executing trade(s). Use 4 hour, daily, weekly, and monthly time period charts for inter-day “swing trading” and confluence correlations of trend and reversal directions.

B. (.1) lot is a mini $10,000 lot. (1) lot is a full $100,000 lot. Margin requirements are subject to change. Please ask your trading platform company for current margin requirements per lot. Recent changes allow for up to 50:1 leverage in the U.S.

C. Daily Rollover is at 5:00pm EST. Close all positions before rollover time, unless you’re in a profitable “carry trade” or swing trade.

D. Settlement is two trading days maximum in “spot forex.”

E. Trade Entry and Exit is based upon NEWS TIMING, TIME OF DAY, SYSTEM & INDICATOR SIGNALS, good price action, and proper trade set-ups.

6. TRADE TIMING:

A. DAILY NEWS & REPORTS & SYSTEM INDICATOR SIGNALS.

B. TIME OF DAY, i.e. 2:00am EST is London's 7:00am; 8:00am EST for REPORTS/NEWS by 8:30, 9:45, 10:00, 10:30am EST. Some moves begin at 2:00am EST. MOST moves begin at 8:30am EST.

C. "Day Trade" duration from 1-3 hours, as most of the moves have already taken place in the morning hours. Exit all trades optimally by 11:30am EST, and no later than 4:00pm EST, to avoid rollovers and unknown market directions (Day Trade v. Position "Swing" Trade).

D. DAYS OF WEEK, i.e. Monday, Tuesday, Wednesday, Thursday, Friday for key news & reports. Wednesdays and Thursdays are sometimes positioning days for Fridays reports (Payroll) and end of week close of positions. Wednesdays are sometimes positioning days for Thursdays reports. Watch for "systems traders" profit taking, and/or position closing, that would be contrary to expected market directions - then key reversals in the anticipated market direction. No trading on Saturdays. Trading begins on Sunday at 5:00pm EST. Thursdays and Fridays generally offer the greatest "pip" range movements. Use Mondays and Tuesdays for trade set-ups, and to establish key pivot points, support/resistance levels, Fibonacci levels, and candlestick patterns for the week.

E. MONTH OF YEAR: check http://www.ozforex.com for monthly cyclical comparisons. See also live trading platform charts, as well as economic calendar at http://www.shirmeyer.com

7. TRADING SYSTEMS:

Your broker platform's onboard "Trading Systems & Indicators" to include; Moving Averages (MA's), Relative Strength (RSI), MACD Histogram, Fibonacci, Pivot Points, Support/Resistance, Candlesticks, CCI, Stochastics, Parabolic SARS. Use each to confirm the others. At least 2 of 3 confirmed, 3 of 3 best confirmation (bearish or bullish) for buy and sell signals. Each system and indicator default setting uses differing time frames to better time short term entry and exit times. Most platforms continually update their trading software, so there will be new systems and tools added occasionally - get familiar with all of them, as you may find something that you find useful personally, i.e. Keltner Channels, Donchian Channels (Price Channels like Bollinger Bands only tighter).

A. DO NOT fish for absolute tops and bottoms. Play/trade the middle after confirmation of trades, as there are fake-outs, and "market maker" traders who purposely take out stops, and then reverse direction. Watch for support and resistance "pivot points" being penetrated, which may signal a new trend direction, but the probabilities indicate that immediate price action will reverse off the pivot point and trade in a "range."

B. STOPS. I do not use physical stops for scalp/short term (minute-hourly) trading, as this limits my trade, as I could get "taken out" too early and at a loss (I DO have mental stops, however). I'll manually exit trades if directions become adverse or I've missed the system signals. Most trades closed daily, except profitable carry and swing trades. My philosophy is to **STAY WITH MY TRADES IN PERSON AND VISUALLY, FOR BOTH ENTRIES AND EXITS, UNTIL THE TRADE IS OVER!** Stop losses quickly! YOU should use stops as a beginning trader. Some platforms have default settings on their "Trading Systems." Parabolic SARS, support/resistance levels, pivot points, Fibonacci levels, candlestick highs and lows can all be used as reference points for your stops. Depending upon your risk aversion, you may or may not want to place your stops with a 1-2 pip extra buffer, and to help prevent an early stop of your trade.

C. CHARTS. Use "15, 30 and 60 minute charts" for "day trading" entry/exit. Use 15', 30', and hourly charts for daily trend following-market direction. Hourly (1,4), daily, weekly, and monthly charts can also be utilized to smooth out the "noise" in following your trend directions, as well as being used for "Swing/Position" longer-term trading.

D. CANDLESTICKS. Use and understand candlestick visual formations to "filter" trade timing and other indicator signals, as they are reliable for helping to determine reversals. Refer to Steve Nison's book on candlesticks for more thorough pattern assessments.

8. MONEY MANAGEMENT:

A. EXECUTE HIGH PROBABILITY "SIGNALED" TRADES ONLY! DON'T trade just to trade "for fun." ***Trade to make money, and trade to win.***

B. Stop your losses quickly.

C. Let your profits run their course. Watch your system signals for entry and exit.

D. Trade 12% of equity at maximum risk. *Trade 1-5% of equity for minimal risk, and to avoid getting "wiped out."*

E. Compound equity gains and winning trades by increasing lots/positions as winning trade progresses to higher levels of profit. "Scale in" with additional lots. Add 1-3 lots at different price levels of profit! Or, start your trade(s) with 3 lots (as an example), then “scale out” by selling one lot at each of 3 separate profit targets.

F. Decrease losses by exiting losing trades quickly. DO NOT add to a losing trade! Subtract and get out!

G. Use price targets for profits. Take what the market will give you. Don’t “push on a string.” Use pre-determined Fibonacci levels, pivot points, support/resistance levels for price targets.

9. Considerations:

Disasters-Terrorism: News-Price actions. Trading station platform alternatives.

Markets consist of BOTH fundamentalists (25%), AND technical analysts (35%).

Psychology of BOTH will affect the markets. Use BOTH “Reports” and “Systems.”

I believe I will make money and win my trades. However, there may be some losses.

Computer and connection speed ok? Price execution ok?

Cycles and Wave theories and a natural “reversion to the mean” and equilibrium or balance (parity/PPP).

Forex Traders & Courses: Learn techniques from other traders & course materials. Be open minded about new ideas, but *keep it simple. Do what works*.

Read and study always! No one person knows it all.

Withdrawing funds. Withdrawal form on website.

London trading is sometimes a pre-cursor to NY trading direction due to “news leaks” and “anticipation.” Asia trading precedes Europe.

My trade focus is on EUR/USD currency pair, unless I see a terrific profit possibility/signal elsewhere.

Time your trade entry/exit.

Every top trader agrees that, “It’s the simple stuff that works.”

Follow the market. Take what the market gives you. Don’t push the string.

Magazines: Futures, Active Trader, Stocks and Commodities, Currency Trader.

Newspapers: Wall Street Journal, Investors Business Daily, Financial Times, Barrons.

TV: Bloomberg Financial, & CNBC in the morning, for daily news and reports.

Web sites: saved to "my favorites."

Books: Continuing education.

Newsletters: www.dailyfx.com www.fxstreet.com www.fx360.com

Keep a daily trading journal.

Focus on my intent and purpose to make money and to win my trades.

10. Philosophy:

Learn. Continuing education. Fundamental & Technical analysis. Observe markets. Know history of your market(s). Be open-minded.

Be a trend and range follower, not a "forecaster" or "prognosticator." No one has a crystal ball.

Trade the "price action" in current time. No need to guess what the price will be tomorrow. The price "is what it is" at the present time.

Let "value" and "parity" take care of itself inherently in the price, as the price discounts quickly all factors effecting price, i.e. news, reports, analysis.

11. Resources: Know your trading desk emergency telephone numbers and support emails, just in case your computer goes down with active trades still "on."

Chapter 15: Trader's Taxes, Including Forex Currency Trades

Trader's Taxes, Including Forex Currency Trades

"GreenTrader" Cutting-Edge Content on Forex Taxation:

Provided by Robert A. Green & Company CPA's, LLC

Taxation of forex is confusing and uncertain in the tax code, and that makes tax filings difficult for forex traders. The tax-problem is that some types of forex are treated as IRC 1256 contracts with lower 60/40 tax treatment and other types of forex are treated as IRC 988 foreign currency transactions with ordinary gain or loss treatment. Plus IRC 1256 and IRC 988 are dueling and conflicting tax code sections.

Traders prefer the best of all tax-worlds with ordinary tax treatment for losses, so they are exempt from capital loss limitations. And capital gains (60/40) tax-treatment for gains, so they save up to 12% in tax rates (23% versus 35% at current tax rates). Traders should learn the complex rules for forex taxation before they start trading forex so they can make the necessary elections in-advance to ensure the best overall tax treatment. Can forex traders have their (tax) cake and eat it too?

Here is how the different types of forex are taxed:

Currency futures and options listed on U.S. commodities and futures exchanges are by default treated as 1256 contracts. There is no confusion in the tax code about it and traders or investors get lower 60/40 tax-treatment by default.

But for these U.S. listed forex futures and options, few traders know they may also elect out of IRC 1256 for IRC 988 (foreign currency transaction) ordinary gain or loss treatment. But this is not a big problem in the real world since very few individual traders would want to exchange lower 60/40 tax-treatment for higher ordinary gain tax-treatment? This election is very strict and it must be made on January 1 or the start of trading later in the year, and once made can only be revoked with IRS consent.

You can't cherry pick the election after-the-fact, when you know you have losses. This election is mostly used by corporations and hedgers to avoid capital loss treatment. Don't panic about forex futures losses, IRC

1256 losses may be carried back 3 tax years; but only applied against IRC 1256 gains in those years.

Currency futures and options listed on foreign (not U.S.) exchanges are treated differently by default, but possibly in the same manner after doing some leg work. IRC 1256 contracts include not only contracts listed on U.S. exchanges but certain non-exchange traded contracts also. Two things can help you get foreign currency futures treated as IRC 1256 contracts.

First, we have argued recently that foreign futures are similar to U.S. futures and should be afforded IRC 1256 treatment. Otherwise, the U.S. may be in contravention of tax treaties with many other countries. Learn more in our recent articles on the subject in the February issue of SFO.

Second, in our below internal company tax memorandum on spot forex taxation, we argue that a trader or investor may elect out of IRC 988 for IRC 1256 on foreign currency futures listed on foreign exchanges. Therefore, we believe that like spot forex discussed below, you may claim IRC 1256 treatment on for foreign currency futures listed on foreign exchanges, providing you also timely elect out of IRC 988.

Over-the-counter currency options are a huge marketplace. They are not futures or options contracts listed on U.S. or foreign exchanges; nor are they interbank-traded spot or forward currency contracts. OTC currency options are a breed apart and traded often by sophisticated traders. Even though the IRS never cleared up dueling and conflicting older tax law code sections IRC 1256 and IRC 988 in connection with spot forex taxation, the IRS did make the tax rules clear for OTC forex options in their 2003 tax notice (2003-81). In the notice, the IRS clearly states that OTC forex options are IRC 1256 contracts, but if you want 60/40 treatment, you still have to elect it.

Notice a trend developing here. IRC 1256 recognizes some foreign currency contracts as being 1256, while dueling IRC 988 also recognizes those same contracts as being IRC 988. Which tax code section wins and applies?

It’s reasonable to conclude that the trend shows you can claim 1256 treatment, but you should also elect out of IRC 988. Join the 60/40 lower tax club, but also get permission first to leave the higher-taxing IRC 988 club.

Interbank forex is the most confusing subject tax-wise. Read the below more in-depth articles and memorandum on the subject and next consult with a forex tax expert.

Consider obtaining a tax opinion from **Green Trader Law, LLC** about how you report spot forex on your tax return. This may help you find the best tax outcome and also protect you from IRS penalties, if they disagree later on.

Here's the skinny on IRC 988 foreign currency transactions. They are ordinary gain or losses reported in summary form on line 21 of Form 1040. Conversely, IRC 1256 foreign currency futures are reported on Form 6781; where they are split 60/40 before being moved over to Schedule D (Capital Gain or Losses).

IRC 988 interbank forex includes spot forex, forward forex and other types of forex contracts mentioned in the articles below. Spot forex differs from forward forex contracts in that spot settles in cash in no more than 2 days, and forward contracts settle in more than 2 days.

IRC 988 clearly states that a trader or investor (holding a capital asset versus a hedger or regular business) may elect out of IRC 988 for the more tax-beneficial IRC 1256 on forex forward contracts and foreign forex futures. IRC 988(a)(1)(B) requires that if you want 60/40 treatment for a forex future (meaning foreign exchange listed), options or forward, you have to elect it (which we recommend using the global good till cancelled type of election).

Here is where the big tax uncertainty comes into play. Notice that IRC 988 does not specifically mention that you may elect out of 988 on spot forex. This glaring omission unfortunately leads many tax professionals to shortsightedly concur that spot forex may only be treated with ordinary gain or loss treatment.

We argue that you can dig deeper to find a way to treat spot forex as IRC 1256, as long as you play it safe and also elect out of IRC 988 on spot forex too.

Here is how it works and how you can do it.

Although it is not widely known by the forex trading marketplace, IRC 1256 recognizes many types of spot forex contract currencies as 1256 contracts. Read the below article and memo from **Green Trader Law** attorneys for the specifics here.

Again, the problem is that IRC 988 also specifically recognizes spot forex contracts as IRC 988 transactions. Again, these two tax code sections conflict and cause uncertainty and risk for return positions on spot forex.

Does IRC 988 trump 1256 or does IRC 1256 trump 988 or must they co-exit? The prudent answer seems to be they must co-exist.

If 1256 trumped 988 on spot forex, then spot forex would always be 1256 and you could not even elect out of 1256 for 988 as that is allowed for U.S. exchange listed currency futures and options only. So you would be stuck with 60/40 treatment, which is not good if you have large spot forex trading losses, as you would prefer ordinary loss treatment with IRC 988. Be careful what you wish for.

So it's a good thing that our firm and consensus professionals believe that spot forex is IRC 988 by default (sort of trumping 1256), so you start with ordinary gain or loss treatment. We explain why we believe that spot forex is sufficiently similar to forward forex contracts so you can also elect out of 988 on spot forex too.

It seems like our logic on spot forex pays good dividends. You can argue that spot forex is 1256 as long as you elect out of 988 first. Have your cake and eat it too.

Again, tax law for forex is very confusing and complex and the only thing that is certain is that there are major conflicts in the tax code with IRC 1256 and IRC 988. GreenTraderLaw is attempting to work with the IRS to codify overdue guidance to clear up the confusion. We need support from sponsors and traders. Please ask your forex brokers to sponsor the **Green Trader Alliance for Traders** to help. Please join the alliance as a member too.

A note of caution: You can have your cake and eat it too with ordinary loss treatment and 60/40 gain treatment by using internal elections wisely. But don't fool around with making these elections. If you wind up with 60/40 treatment on gains and ordinary loss treatment on losses from year-to-year, that will appear to be "cherry picking" after-the-fact, even though the elections must be made in advance of trading.

We expect IRS clarification, but possibly also a requirement for external elections like with IRC 475 mark-to-market accounting for business traders.

If you have any questions, e-mail us at info@greencompany.com

For much more in-depth information about forex taxation, we recommend that you purchase **The Tax Guide for Traders** by Robert A. Green.

When it comes to Trading in Currencies, Special Tax Rules Apply:

More forex trading taxation details by Robert A. Green, CPA

Currency traders face complexities and nuances come tax time. Currency futures are treated like other types of futures; your accounting is a snap and you enjoy lower 60/40 blended tax rates. However, cash forex can be an accounting nightmare and you face higher ordinary tax rates, unless you "elect out" of IRC 988 for 60/40 treatment.

When it comes to trading in currencies, special tax rules apply.

There are two distinct types of currency trading, and each has profound differences in tax and accounting rules.

First, you can trade in currency futures on regulated commodities exchanges. These futures are treated the same as other commodities and futures – as IRC section 1256 contracts.

Or, you can trade "cash forex" in the interbank market (not on regulated futures exchanges), subjecting you to an entire set of special rules concerning IRC section 988 contracts.

Before you file your tax return, or even better yet before you start trading, find out what you are trading – is it a Section 1256 contract or a Section 988 contract?

Many currency traders transact in both: contracts on regulated commodities exchanges ("regulated futures contracts" [RFC] on currencies) and in the non-regulated "interbank" market (a collection of banks giving third party prices on foreign current contracts [FCC] and other forward contracts) – commonly known as "cash forex".

Learn below how currency traders are taxed similar to commodities traders, except that interbank currency traders must "elect out" of IRC section 988 (the ordinary gain or loss rules for special currency transactions) if they want the tax-beneficial 60/40 capital gains rate treatment of IRC section 1256.

Currency trading is like commodity trading in general.
Most currency traders seek to be treated like commodities and futures traders in that their trading gains and losses are treated as section 1256 contracts.

Both business traders and investors report section 1256 contracts as capital gains and losses on Form 6781 (Gains and Losses from Section 1256 Contracts and Straddles). This allows them to split the gains and losses 60/40 on Schedule D: 60-percent long-term, 40-percent short-term.

This 60/40 split gives commodities traders and investors an advantage over securities traders. 60 percent is taxed at the lower long-term capital gains rates (up to 15 percent) and 40 percent is taxed at the higher short-term capital gains rates (or “ordinary rate” up to 35 percent).

The current maximum blended 60/40 rate is 23 percent, which is 12 percent less than the maximum rate of 35 percent on short-term securities (or cash forex trading if you don’t elect out of IRC 988, see below).

Certainly, a 12-percent tax rate reduction is worthwhile to pursue for all currency traders.

Cash forex is subject to IRC section 988 (treatment of certain foreign currency transactions).

The principal intention of IRC section 988 is taxation on foreign currency transactions in a taxpayer’s normal course of transacting global business.

For example, if a manufacturer purchases materials in a foreign country in a foreign currency, the fluctuation in exchange rates should be accounted for pursuant to IRC section 988. IRC section 988 provides these fluctuations in exchange rate should be treated as ordinary income or loss and reported as interest income or interest expense. IRC section 988 considers exchange rate risk in the normal course of business to be like interest.

IRC section 988 <u>does not</u> affect currency futures (RFCs):

Currency traders who trade currency futures (regulated futures contracts – RFCs) are not affected by IRC section 988 because they are not trading in actual currencies.

RFCs based on currencies are just like any other RFC on an organized exchange.

Additionally, since RFCs are marked-to-market at the close of each day (and year) in accordance with IRC section 1256, the economic and taxable gain or loss are the same. IRC section 988 specifically mentions that RFCs and other mark-to-market instruments are exempt transactions.

IRC section 988 <u>does</u> affect Foreign Currency Contracts: When a currency trader uses the interbank market to transact in Foreign Currency Contracts and other Forward Contracts, they are exposed to foreign exchange rate fluctuations.

However, currency traders look upon their currency positions as “capital assets” in the normal course of their trading activity (business or investment).

What this means is that a currency trader may elect out of ordinary gain or loss treatment in IRC section 988, thereby falling back to the default section 1256 contract treatment; which is 60/40 capital gains and losses. Most currency traders will want to make this election for the tax-beneficial treatment of section 1256 (lower tax rates on gains).

Foreign exchange traded currency futures:

Many traders ask this question: “Are currency futures trades done on foreign exchanges also taxed at 60/40 for U.S. citizens, or does 60/40 only apply to futures listed on U.S. exchanges?”

There is a reasonable basis in fact and law to conclude that futures traded on certain foreign contract markets with either a CFTC Rule 30.10 exemption or No Action Letter are entitled to classification as Section 1256 contracts (e.g., commodities) with the result that “60/40” tax treatment is appropriate.

To “elect out” of IRC section 988 or not, that’s the question:

If you have cash forex trading gains, you will prefer to elect out of IRC section 988 to benefit from up to 12-percent lower tax rates on Section 1256 contracts.

Conversely, if you have cash forex trading losses, you may prefer ordinary loss treatment over Section 1256 capital loss treatment. As a result, you may not want to elect out of IRC section 988.

Note that IRC section 1256 losses may be carried back up to three tax years, but only against IRC section 1256 gains in the prior three tax years. Ordinary losses may offset any type of income. But, technically, it’s not a simple choice like this at the end of the year.

The rules require that you elect out of IRC section 988 on a “contemporaneous basis.” This means that hindsight is not allowed and you must make your decision in advance of the trades, before you know if you will have gains or losses.

Can you bend the rules?

The election out of IRC section 988 should be filed “internally,” which means you place it in your own books and records as opposed to filing it with the IRS.

Many traders do bend the rules and, after year-end, if they have cash forex gains, they claim they elected out of IRC 988 to use the beneficial IRC 1256 treatment.

In fact, our firm has noticed hundreds of traders who don't even know the rules and simply report their cash forex gains on Form 6781. Others report them on Form 1040 line 21 as ordinary income and just pay higher taxes, without knowing the difference.

We expect the IRS to catch up with all cash forex traders soon, after the explosion of cash forex in the online trading market.

Don't bend the rules and get into trouble; learn about the rules up front and follow them for success.

Currencies futures vs. cash forex – what's the accounting difference?

Currency futures traders have it easy on two accounts. Not only do they get the lower-tax 60/40 treatment on trading gains, but they also have it much easier come tax time.

Your brokerage firm sends you (and the IRS) a simple Form 1099 soon after year-end, reporting one number for your Section 1256 trading gain or loss for the tax year. Line 9 on that Form 1099 is "aggregate profit or loss."

The "mark-to-market accounting" rules in Section 1256 make accounting a snap. Your brokerage firm simply adjusts your realized gains and losses with beginning and end of year unrealized gains and losses for a combined realized and unrealized gain or loss amount.

On your tax return, report "aggregate profit or loss" on Form 6781 (the 60/40 form). Those 60/40 amounts are then transferred to Schedule D (capital gains and losses) – unless you carry back a Form 6781 loss to prior years.

Wow, if only all traders had it so easy on accounting!

Section 1256 futures traders don't need any accounting solutions or programs unless they want to check their brokerage firms, which may be a prudent idea.

Securities and cash forex traders face accounting challenges come tax time.

Form 1099s report proceeds on securities transactions, and some have "supplemental information" for total sales and purchases of securities options, mutual fund transactions and purchases of securities. Form 1099s do not report cash forex transactions or single-stock futures.

Traders who fill out Form 1099s are on their own. Some brokerage firms offer online reporting, but many have unmatched trades and some say you can not rely on these reports for your tax returns.

So, if you trade in anything other than Section 1256 contracts, you will probably need your own accounting solutions or software programs.

Most good accounting programs are geared towards securities traders. For examples, this writer's company offers **GTT TradeLog**, a leading program for active traders to download all transactions and calculate trading gains and losses, with wash sales or IRC 475 mark-to-market adjustments.

Here is a good accounting solution for cash forex:

Money managers report cash forex trading gains and losses using a "Performance Record Approach."

These results are sufficient for tax authorities and reporting rates of return to investors. Use the same formula in a worksheet for your tax return. Here's the formula to use on a worksheet template.

Ending net assets (at market value) less beginning net assets (at market value), less additions of cash, plus withdrawals of cash, equals net performance. Subtract non-trading items such as interest income, add interest expense and other expenses, and you have net trading gains or losses on cash forex.

If you don't elect out of IRC 988, you report your ordinary gain or loss from cash forex as "other income" on Form 1040 (line 21).

If you elect out of IRC 988, add this amount to Form 6781 as "cash forex elected out of IRC 988."

Your monthly statements may get you lost in the woods. If you try to figure out your cash forex gains and losses from your monthly brokerage statements, you may get very confused and lost.

We have clients that have different statements for each type of currency (e.g., U.S. dollars, Japanese yen, Swiss francs and Euros) and it can become a nightmare scenario to try and figure it all out. The performance record approach is a salvation and it's accepted by the IRS.

My broker reported my cash forex along with my IRC 1256 contracts. Is that OK?

A few brokers lump in cash forex in with IRC Section 1256 contracts on 1099 line 9 "aggregate profit or loss."

This is technically incorrect by law, but it may save you taxes and an accounting headache.

Technically, cash forex are IRC 988 transactions and should be segregated from IRC 1256 contracts.

Perhaps these brokers can argue that when you opened your cash forex account, you “contemporaneously” elected out of IRC 988 for IRC 1256 treatment, and that you qualify for such as a trader rather than a manufacturer-type business.

You should consult with a trader tax expert if this applies to you.

Also, consider what happens if you have a large cash forex loss and you prefer ordinary loss treatment instead of Section 1256 treatment – so you don’t get stuck with the capital loss limitation of $3,000.

You face difficulty in overriding a broker’s 1099 treatment for 1256 contracts. Consult with a trader tax expert who may be able to help.

Cash forex is the “wild west” of trading and IRS reporting:

Cash forex is not registered with the CFTC and it has been called the “wild west” of trading.

Cash forex is also the wild west when it comes to taxes and reporting trading gains and losses.

There should be no 1099 reporting for cash forex, so you are your own sheriff when it comes to “rounding up” the gain and loss numbers and paying your taxes (with the nuances of IRC 988).

A person visited our booth at the Online Trading Expo in NYC and asked if cash forex was taxable at all? She heard that many cash forex traders claimed they don’t pay any taxes on their gains. We told her the IRS sheriff will catch up with them soon and throw the book at them for tax avoidance.

Remember, Form 1099 rules are minimum reporting guidelines set forth by the IRS. New products are being created all the time and it takes years for the IRS to set the guidelines for how each product is reported on Form 1099s, if at all. Brokerage firms tussle with the IRS each year on what they must report; as it causes great stress and cost on their accounting systems.

Many new and smaller cash forex brokerage firms have ramped up quickly to tap into the explosion of interest in cash forex – especially after the securities markets went into a tailspin a few years ago.

Many of these firms are not strong on reporting, systems or tax compliance, so you may be on your own when tax time comes.

Before you open a cash forex account, ask your brokerage firm what kind of reporting and support they offer you.

Bottom line:

Currency trading is a hot commodity in the market place, but not all currency contracts are taxed like commodities. Cash forex is subject to IRC section 988 rules, and if you're a trader you can elect out of IRC 988. This will allow your gains to be taxed like commodities – with beneficial 60/40 treatment. Before you start trading cash forex, find out if your brokerage firm will help you with trade accounting. If not, you may have a huge accounting headache on your hands come tax time. When it comes to currency trading, it's wise to learn all the tax rules and consult with a trader tax expert.

If you have any questions, e-mail us at info@greencompany.com

For much more in-depth information about forex taxation, we recommend that you purchase **The Tax Guide for Traders** by Robert A. Green.

End of "How To Become A Successful Forex Trader"
Volume 3: An Advanced Guide To Forex Trading Profit$

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Volume 4: Forex Market Wizard's Guide To Forex Trading Profit$ - Chapter 1: Forex Market Wizard Trading Systems

Jack Schwager's primary conclusion after writing the first two *Market Wizard* books is that great traders all have developed systems that fit who they are. I agree that's one of the secrets to success. Here is a list of some of the criteria you might want to think about in order to design a system that fits you. This is a repeat from a section North-ward, but worth its weight in gold…

1. You need to know who you are. How can you design something that fits you if you really don't know who you are?

2. Once you know who you are, then you can determine what your objectives are and design a system to fit those objectives.

3. What are your beliefs about the big picture and to what extent must your system be able to fit your big picture beliefs. For example, if you believe that the U.S. dollar is doomed to collapse over the next 5-10 years, how would that affect your thoughts about developing a trading system?

4. You can only trade your beliefs about the market, so you need to understand what those beliefs are. What specifically do you believe about the market and how does that give you an edge? When you understand these criteria, then you can specifically design a system that you are comfortable.

Let's take a look at one example. Suppose you believe that markets are not really random because there are big trends in the market that don't fit the price movements you'd expect of random markets. You perhaps believe that the best way to make money in the markets is to find and capitalize on those trends. Now if this was your primary belief, do you think you could do the following?

Buy things that were out of favor that nobody likes? Probably not because this doesn't fit the primary belief that you believe gives you an edge.

Sell high and buy low like a band trader is likely to do? Probably not, because this is a very different mentality.

Now I could give lots of examples of beliefs and lots of examples of things that might be hard for you because they don't fit those beliefs. Hopefully, you've got the idea by now. You must determine what you believe about the markets that will give you an edge because you can only trade something easily that fits your beliefs.

5. Next you must understand the various parts of a system and the beliefs that you have about each of those parts. For example, what do you believe about setups, entry, stops, taking profits, position sizing etc. Again, you can only comfortably trade your beliefs.

For example, suppose you want to catch trends, but you believe in tight stops. This means that you could easily get whipsawed in and out of trades a lot, but that when you do catch a big trend, your total reward will be many times your initial risk.

6. Another way of stating #5 is to ask yourself, "What criteria must my system meet in order for me to be able to comfortably trade it?" And while I can give you lots of suggestions, this is still a matter of personal comfort, and a big part of developing a system that fits you.

Lastly, you must ask yourself, what you will do to make sure your system fits all of these criteria well enough for you to be comfortable trading it. If it doesn't meet some of your criteria that well, what will you do to make it fit? Or will you change your criteria?

Now, let's change gears. The following caveats are not meant to be contradictory, or to discount your learning process, but to provide you with a balanced "food for thought" meal of information.

Remember, this is what "intermediate" traders (and some "advanced" traders) go through in their thought process. They think they need to "develop" a system from scratch, in other words, to "re-invent the wheel" (rather than finding an already built and good wheel to use). ***You need to ask these questions of yourself, and then skip past the process of wasting your valuable time, in futile attempts to "make your own holy-grail trading system."*** Traders get themselves into trouble trying to know too much, and in trying to apply too much knowledge at once. They know just enough to get themselves into trouble, and to lose a lot of money in record time.

I have a suggestion for you, and like BLM land, it's freely open to the public, you simply need to visit. Ask the questions of yourself, learn, raise your awareness, learn more and love it, but, keep it simple, slow down, don't waste your time and money re-inventing the wheel as far as trading is concerned. Be aware of the learning process and thoughts presented in this book and others, and then read through this section patiently. This concept alone will save you from years of failed trading and thousands of wasted dollars.

In other words, don't be your own worst enemy, by letting a little knowledge go to your head, whereby, your ego takes over and you think you can now out-smart the markets with your new awe-inspiring knowledge and wisdom. Einstein said it best, ***"Simple is sophisticated."*** Keep it simple. Keep your feet on the ground. Be aware of "everything," but focus on doing what works, and the techniques that have already been proven to work by many successful traders over many years.

Now let's examine the commonalities of *Pro Forex Trader Systems*, so YOU can be a successful Forex Trader too!

Chapter 2: How To Think And Trade Like A Pro Forex Trading Market Wizard

What makes the best Pro Forex Traders successful?

Are they lucky? Have they discovered some “secret” indicator? **No.**

They’ve learned the truth about trading. Trading success is a simple as 1-2-3. So, let’s sum up what we’ve learned in this ebook, and from the pro forex traders above…

Step 1 - Understand what trading is really about – trading “for” yourself (not “against” yourself) to make, save, and accumulate money. Step 2 - Learn what a winning forex trader does – mentally, fundamentally, technically. Step 3 - Then do it – continually - successfully.

1. The Essence Of Successful Trading

Trading success is all about percentages and *probabilities*. You enter a trade because you believe that it’s more likely to succeed than fail – based upon probabilities, and your experience in applying your technical and fundamental analysis to increase your probabilities for initiating successful trades.

If you’re searching for the “100% perfect every time” trading system, the one that delivers profits on demand like an ATM machine - you’ll be searching until the end of time.

Successful trading is simply a game of *probabilities*, and putting these probabilities on your side, by using the correct indicators – in the correct way.

And, there some automated “robot” trading “systems,” which *may* offer a higher percentage probability than others. But this is generally “month-to-month” and very short term. See some of these “systems” at www.FXCM.com.

Here are some probabilities from “real” trading results, over approximately a year of trading (January 1, 2008 through December 31, 2008), for some important technical tools. These figures will give you an accurate assessment of the validity and *“probable”* outcome derived, when using these indicators/tools individually (adding confirmation signals could increase your probabilities, i.e. adding a 2 line moving average cross-over and a MACD):

A. Fibonacci Retracements = 73.1%

B. Support/Resistance = 69.7%

C. Trend Lines = 60.6%

Another test, done from May 1, 2009 to May 1, 2010 (944 trades), showed increased probabilities from 70% to 82%, when using other indicators/oscillators combined with trend line breaks and reversals, i.e. RSI, Stochastics, Momentum, Moving Averages, Fibonacci retracements.

2. What Makes A Successful Trader?

A successful trader is someone who follows a “proven” trading plan.

Your trading plan tells you when to enter a trade, and when to exit. An entry point & “signal.” An exit point - either a target or moved up or down to lock-in profits along the trend (using a Parabolic SAR, lower Bollinger, Support and Resistance, “low/high” stops).

Any successful trader must understand the timeless law of probability. That with a positive attitude and a sensible approach to money-management (cutting your losses and letting your profits run, while not betting the proverbial “farm” on a single trade), eventually and hopefully, you’ll come out ahead of the trading game.

That’s why a trader is NOT a stressed-out, valium swallowing, adrenaline junkie who lives impulsively from one minute (or day) to the next.

A good (i.e. profitable) trader knows that it’s just another trade. It’s all just statistics and probabilities in action – trading slowly and methodically, with the sole purpose of making money and being profitable, and not simply trading for the sake of trading.

The important point here is long term consistency. Be consistent with your positive attitude, and with the proper use of the best indicators/oscillators/signal producers.

3. How To Develop A “Trading For Success” Attitude

Every time you sit down at your trading screen, remind yourself that “trading is statistics in action.”

Nobody knows what the market is going to do next. It’s not necessary to guess or to predict the market direction. You follow your indicators and signals, and you do what works “most of the time.” Don’t “push on a string” to force your trades against the market direction. Rather, let the market “pull” you along its trends.

When you understand that trading is about trend following and probabilities, and that your trading “system” is designed to provide you with an advantage, or edge over the long term, then all you have to do is to execute the plan with intelligence.

So, what is it that gets in your way, and prevents you from being as successful as you want to be? You. Or rather, the *emotional* you. You need to work on developing the mind set of a professional trader. Try this routine for 30 days and see how much you improve:

BEFORE: (At the start of your trading day.)

Step 1 - Close your eyes and remind yourself of the truths of trading: “Trading is all about probabilities.” Write this on a yellow post-it note and stick it to your monitor.

Step 2 - Mentally see yourself following your trading plan. Entering a trade on signal. Exiting at the right time. Trading the right size for your account.

Step 3 - Visualize each trade as a tiny part of a big picture. You might want to visualize it as a matrix, with 100 boxes. Each trade is unimportant compared to the overall scheme. Create your own image for this (your own image is best because “you own it”). Trading is a visual process. The point here is you need a visual metaphor to distance yourself emotionally from the immediacy of real-time trading.

DURING: (When in a trade.)

Step 1 - Physically relax. Reduce negative emotions, i.e. fear, or anxiety. You need to reduce negative emotional “dissonance” as much as possible. Prevent it from creeping up on you, so you don’t make a mistake, and accidentally feed it. Relax and breath normally.

Be aware of your whole body. Remember the last time you got stressed. What did it feel like? Tense shoulders? Stomach muscles tightening? Relax those areas now. “Know thyself.”

Note - none of this suggests that you should be slow about entering or executing trades. Quite the opposite! In real-time trading you must be quick and methodical. But you are operating from your rational, thinking mind... and not the panic-induced animal mind fighting for survival out of fear!

Step 2 - Breathe! Some traders stop breathing completely in a trade! Breathe in slowly for a count of four, hold it for four, and breathe out for four.

Step 3 - Focus on yourself. Following a trading plan is a “no brainer.” You enter. You trail a stop. You exit. Self-talk helps stay in the state. Remember that when you’re watching the price in real-time, there’s a tremendous danger of adding emotional fuel to a simple situation. Watch how you’re feeling. Observe any tension and let it go.

Step 4 - Watch your language! Words affect us profoundly with positive or negative vibrations. Ever had someone scream at you? Stirred up lots of emotion didn’t it? So don’t scream at the market. Speak calmly. Send out positive vibes.

Comment on what the market is doing. Speak out loud. “The current trade began at hh:mm, the system gave a buy signal at price level, the target is “X,” with a stop at “Y.” Stop loss was moved to break even at “A,” as per the plan. The market is currently in a trading range between “B” and “C.”

All this helps you to stay objective.

Also, avoid “what if” thinking. Creativity has no place in trading! Be mechanical. Be objective. Don’t second guess a trade after it’s done…learn from it, then move along.

Step 5 - Continually remind yourself of what successful trading is. See the current trade as just another trade, on just another day. Your job is to follow the system - professionally and without emotion. With practice, you truly won’t care whether the current trade turns a profit or a loss. You’ll simply take it in stride, and move on to your next profitable trade.

AFTER: (After your trades.)

Review your trade(s). How did you do? Were you trading rationally or emotionally? How much of each? This isn’t black and white. It’s about balance. Think of it as 2 bar charts. The higher the rational level, and the lower the emotional level, the more successful you’ll become. Master yourself. And the money will follow. Follow up with yourself by reading Tony Robbins, the master of NLP – “Neuro-Linguistic Programming” – and “train” yourself to take yourself to the next level – emotionally, mentally, and intellectually. *It really is like golf you know – it’s you playing you.*

Your State of Mind is a Critical Factor in Your Future Success!

One of the differences between a beginning and a more experienced trader is their mind-set. In the mind of the beginning Forex trader is the ever present thought: *What should I trade today? How do I get my 10 PIPS?* In contrast, the more experienced Forex trader is looking to answer a different set of questions- *Which pair offers the best opportunity for a winning trade?* **The beginner wants to jump in, score, and get out.** The more experienced trader wants to wait for the market to come to them. The beginning trader perceives the trade as a reprieve from analysis, whereas, the more experienced trader knows that the trade itself is a ***result*** of analysis.

The search for your next trade starts, ironically, by also looking backward in time.

We start by looking for the location where the price is probing or testing a pattern; a key Fib Resistance or Support area, trend line, or moving average. In a real sense, your next trade takes its shape hours, days, and sometimes weeks before the decision to trade is made. For example, if a currency pair is approaching a key weekly 61.8% Fibonacci retracement level, while another currency pair is simply moving erratically between Fib levels, the pair that is nearer the Fib levels should take priority. It offers a greater trading opportunity, because when prices are at these Fib locations, they are more likely to result in a “real” change in sentiment and trend patterns, offering up true reversals and profits to you, and with much higher probabilities of doing so.

Finding your next trade is a result of applying some key decision rules. The actual trigger conditions for the trade will come at the right confirming moment. The charts describe two key steps in arriving at a trading decision. The first step is to answer the question- “*What is the major trend direction?*” The trader needs to observe the big picture in getting this answer, and assess Weekly, Daily, and hourly patterns, as well as the patterns on your preferred “minute” chart(s). The next important step is to decide what will be the direction of the next trade. Will it be a buy or sell? By choosing the direction of your next trade, you are not predicting the market at all. You are waiting for the market to “tell” you its direction! Therein lies the big difference in putting on a winning trade versus a losing trade. Let’s dig a little deeper into the minds and systems of pro forex *market wizards*…

Chapter 3: 37 Forex Market Wizard's Favorite Strategies, Signal Indicators, And Custom Settings Revealed!

All of these *"Forex Market Wizards"* are professional traders, and you can rely on their information as being highly credible. Most of them have web sites, some of them have forex courses, and some of them have books available on Amazon, and I invite you to check them out for their up-to-the-minute info. *I've bought them all, and condensed their information below, saving you time and a wad of money.* (I've also bought a lot of other materials NOT included herein, because it was simply not worthy material. *36 + Me = "37 pro forex traders" trading secrets and wisdom revealed to you.*)

After these reviews, we'll discuss their similarities, and how you can apply these principles, on your way to becoming a millionaire forex trader, just like several forex trading millionaires and 2 billionaires below!

Abe Cofnas: Abe is a veteran trader and featured writer for Futures magazine, and author of The Forex Trading Course and The Forex Options Trading Course (for the ISE spot options exchange). Fundamentally, Abe watches interest rates, and the U.S. Dollar Index's key 50 day moving average trend (symbol USDX on the www.theice.com). He watches 5, 15, 30 minute, and 4 hour, as well as daily and weekly time period charts. The 50 day moving average can also be applied to the currency pairs. Abe also watches gold as compared to the USDX, as gold is inversely related to the USDX (-.75 to -.95 correlation over 1 to 9 years). The EUR/USD currency pair is almost an exact chart overlay as compared to gold prices. www.Learn4x.com.

He uses key candlestick chart formations to indicate price and trend reversals. He uses Fibonacci support/resistance lines, as well as Fibonacci time-lines. Abe uses Pivot Points, which "can sometimes be identical to Fib levels" (and close to support/resistance levels), which can also be used for stop loss levels and limit orders. He uses Bollinger bands to measure volatility - standard default settings to "20 periods" and "2 standard deviations" (which encompasses 96% of the variation; and "3" covers approx. 99% variation). High volatility is a clue that a reversal is coming. Low volatility often coincides with hesitation and sideways price action.

He confirms trends with simple moving average cross-overs, and likes the 10, 21, 34, 50, and 89 "simple moving average" (SMA) time periods for short, mid, and long term trends (21, 50, 89 are based upon Fibonacci numbers), and a 5, and 55 cross-over simple moving average. Other indicators measuring price reversals are MACD, Bollinger bands, and Williams%R (similar to Stochastics), using the 5, 15, 30 minute, and 4 hour time period charts for similarities in trend directions and price action.

Abe likes an approximate 4% risk level on trades, as anything less has a greater risk of being stopped out of the trade(s). Place stops outside the outer Bollinger band of the 15 or 30 minute charts. Fib levels are also good "trailing stop" levels. Trade with 3 lots – "scale in" or "scale out" in thirds, locking in profits and minimizing risks. News events drive forex. Use "straddle" trades to capture profits from news events, by placing limit orders both above and below price action, and before news events are announced - capturing profits in either direction.

Rule of 3 - use three time charts for "confluence" (similarities), use three indicator confirmations for buys/sells, use three consecutive candlestick formations for trend, pivot points use 3 numbers; high, low, close, all divided by 3, each trade has 3 components; entry, stop loss, and profit limit - in sum, think in terms of groupings of 3's.

Kathy Lien: Kathy checks "Purchasing Power Parity" (PPP) at www.OECD.org. Kathy is mostly a "fundamentalist," and also a technical trader. Interest rates and parity – she likes "carry trades" (money flows where it's treated best). Since 90% of all currency trades are against the U.S. Dollar, it's imperative to watch U.S. economic releases - news data. Most average pip moves occur within 20 minutes of news releases. News Releases data to watch, in order of importance are; Unemployment (nonfarm payrolls), Interest rates (FOMC rate decisions), Trade balance, Inflation (CPI), Retail sales, Gross domestic product (GDP), Current account, Durable goods, Foreign purchases of U.S. Treasuries (TIC data).

Best times to trade are from 8 am EST to Noon EST - this constitutes 70% of the total average range of trading for all currency pairs for the London market, and 80% of the total average range of trading for all currency pairs for the New York market. Set trailing stops 20 pips below "support" - also uses Parabolic SARS for stops.

Look for trade set-ups at "double zero's" price levels at support/resistance levels (i.e. 118.00 for USD/JPY or 1.3100 for EUR/USD), as price "bounces" off of these levels are generally bigger than at other levels, especially when confirmed by other technical indicator signals. Uses CFTC's "Commitment of Traders" (COT) reports to establish a general sentiment for trend direction. She knows and uses average daily "pip" ranges. You can check this CFTC link for currencies, "Eurodollar," and other futures COT reports: www.CFTC.gov. Kathy can be found at www.fx360.com.

Boris Schlossberg: Boris likes the "carry trade" - know the interest rates, or pay the price. Four key themes drive the currency markets; 1. Economic growth 2. Interest rates 3. Trade balance 4. Political stability. The secret to all trading - prices will either trend or range. Uses 3 "SMA" (Simple Moving Averages); 3 and/or 7, 20, & 65 time periods together. Buy/sell signals generate from "cross-overs." A trend follower. First number SMA is short term trend, middle number represents mid term trend, and last number represents long term trend. A technical trader who follows news and geopolitical events. Uses Bollinger Bands in "range bound markets."

He likes "double" Bollinger bands (BB), i.e. standard setting for first BB's, then a second BB inserted into the chart with a "standard deviation" (SD) setting of "1" (the first is usually set by default at "2" on most platforms). High/low price ranges are generally captured within the high/low 1 SD and 2 SD Bollinger bands for high probability trade set-ups, with “No-man's land” being within the middle range. Bollinger bands measure the standard deviation of price from its 20 period moving average.

He also uses MACD, and “CCI” (Commodity Channel Index), and trades both “momentum” indicators relative to price, as convergent or divergent trend directions in the indicator window areas and on the CCI and MACD indicators themselves, as well as crosses, and he uses standard default platform settings.

Boris follows Fibonacci levels, .382%, .50%, .618%, as well as extension ratios of 1.382% and 1.618% (as measured from absolute swing highs and lows). Looks for “Fib confluence” of multiple time periods of support/resistance Fibonacci levels being similar (“Fib clusters”) for trade confirmations.

He looks for “double tops” and “double bottoms,” two common chart patterns also known as “m's” and “w's,” and he also suggests using them as “stop loss” areas. He is fully aware of market maker “stop hunting” expeditions that take out the average trader's stops prematurely. Advocates “scaling in” and “scaling out” of trades - take half or a third of profits, and leave the rest of the trade “on” for further profit targets. Uses RSI standard settings as “volume” proxy, as there are no actual “volume” reports in Fx (there are “upticks and downticks,” however). Likes 15 minute charts for intraday trading. www.fx360.com.

Ed Ponsi: Ed was one of FXCM's main instructors before starting his own web site and $1995 2-day seminars. He recommends trend following, with the use of standard settings on MACD, RSI, Stochastics, Bollinger bands, Fibonacci levels of retracements (Fib levels become self-fulfilling prophecies, as everyone uses them), to follow trends, as well as to get good “breakout” and reversal trades. He also uses trend lines, rectangles, flags, pennants, candlesticks, double tops and double bottoms chart patterns, and pivot points. He uses 5, 10, 15, and 30 minute charting time periods for day trading. Ed is also a proponent of the carry trade, and watches interest rates accordingly. www.FxEducator.com.

Brian Dolan: Brian advocates the use of MACD, RSI, Stochastics, Bollinger bands, CCI “Commodity Channel Index,” Fibonacci, Moving Averages, Support/Resistance levels, all at standard settings.

Peter Rosentreich: Trades the "Majors," because of higher liquidity, more orderly, and tighter spreads. Uses Simple Two-weighted Moving Averages; 5 period and 20 period settings. Buy/sell signals come on "cross-overs." Trades from 5, 15, and 30 minute time period charts. Stay away from thinly traded times, i.e. late NY and early Asia, as these times send many false signals. Trades with a 2:1 risk/reward ratio; if you are looking to make 20 pips, then risk 10 pips - (stops).

Louis Mendelsohn: Louis is the creator of artificial intelligence "AI" software called Vantagepoint. He claims to increase your trading success probabilities, in several differing markets, from 72.2%, to as high as 80.1% success rates. He states his short-term forecasts are accurate to approximately 4 days into the future. He uses "inter-market analysis" in his proprietary software formula. He also uses a "predicted ten-day moving average," for plotting his software's predictions, as stated in his book, Forex Trading Using Inter-market Analysis. I like his use of moving averages, but I disagree with his software pricing – it's way too expensive for what you get for it, when you can use averages on every platform for free. www.tradertech.com. His competition in "AI" is www.neuroshell.com, www.wave59.com, and www.gftforex.com. I am not affiliated with any of them.

Ian Copsey: Ian uses fundamental and technical analysis. He uses standard default platform settings on Moving Averages, MACD Histogram, RSI, Stochastics, Fibonacci, Support/Resistance, Bollinger bands, candlestick formations, and Pivot Points.

Mark McRae: Mark is a technician, or technical trader. He establishes trend directions, then applies technical indicators, such as; RSI (21 period instead of 14), Bollinger bands (standard 20 moving average: 2 deviation), Fibonacci levels (standard default ratios), MACD histogram, Stochastics, (CCI) "Commodity Channel Index," and "Exponential Moving Averages" (EMA's), with time periods for EMA's of 5, 6, 13, 21, 89, 100, and 144 (89 & 144 are Fibonacci numbers). Look for converging crosses for price changes, and price divergence, or widening of averages lines, for trend continuations. Mark trades from 5 and 15 minute time period charts, and uses hourly and daily charts to establish trend lines.

John Person: Uses Pivot Points religiously, as they are predictive of prices ***(pivot points are also known as the “secret of floor traders”).*** Looks for confluence between pivot points and Fibonacci retracement levels, as well as support/resistance levels. Don Lambert, the creator of the CCI indicator, uses the pivot point formula in his CCI calculation. John likes ETF's from Rydex, i.e. Euro Currency Trust (FXE), for people who can't devote the time and resources to spot fx. “Thinks like a fundamentalist, but trades like a technician.” Forex traders benefit from “futures” data, i.e. volume and open interest, as these two markets trade “in tandem.”

Study and observe “carry trade” interest rates, geopolitical events, unemployment rates. Uses “simple moving averages” (SMA's) and “crosses” of 5, 10, and 20 time periods on a “closing price” basis. Likes Candlestick formations combined with Stochastics (standard 80-20 stochastic settings/readings), and MACD. Trades convergence and divergence from stochastics and MACD indicators, as compared to price charts. Pivot points can be used in stocks, futures, etf's, and spot forex trading. To calculate forex pivots, go to the prior day's close at 5:00 p.m. EST, then use the next 5 minute time period's close for your calculations. John uses pivots as his moving averages, and he offers pre-calculated pivots software on www.NationalFutures.com called Genesis.

His pivot point calculation is the standard; (High+Low+Close)/3=pivot average, which acts as a predictive guide to price trends and support/resistance in the form of a non-standard, but very useful and visually helpful moving average. John trades in the 5 and 15 minute time frames (15 is his favorite), and looks for similarities between the two periods, for higher probability intraday trade set-ups. He also uses 30 and 60 minute time periods for overnight trading. John also watches daily, weekly, and monthly charts for longer term trend analysis.

Proponent of taking half your profits from a trade to ensure profits (“scale out”), then let the other half ride until the trend changes - this locks in your profits more often than not (you would need to trade at least two “lots” for this money management method). Pivots can be used to formulate the ranges of the currency pairs, as well as being used as “stop loss” areas. Currency markets tend to trend well, especially over 7-10 day periods. John says, “buy support, and sell resistance.”

John Murphy: John is the premiere Inter-market analyst. He believes in the inter-market relationships of gold, commodities, bonds, stocks, interest rates, etc., as compared to each other, and to the U.S. Dollar. Comparing inter-market relationships and their fundamentals can help a trader/investor make more informed trades in any market. He is definitely a trend follower. His books are definitely worth reading; Technical Analysis of The Financial Markets: A Comprehensive Guide To Trading Methods, and Intermarket Analysis: Profiting from Global Market Relationships, and The Visual Investor: How to Spot Market Trends. www.StockCharts.com.

Rob Booker: Rob enters and exits his trades based upon his moving average cross-over system. He uses 5, 13, and 62 time periods for his moving averages (62 is Fibonacci). He did not begin to make money trading forex, until he started using these *moving average cross-over* time periods in conjunction with the *"1 hour"* chart. He also attributes his success to *"specializing"* in trading the GBP/USD pair, being a highly disciplined trader, especially with his money management. He likes to keep his risk at around 1% of his account (never more than 5%), while "scaling" in and out of his trades 3 or 4 times (rather than "all in," or "all out" at once), lessening his risk scaling in, and taking profits in scaling out of his trades (2-3 trades weekly).

He trades from the 15 minute and 1 hour charts, *looking for ranges/breakouts, and trend/trend reversal trades*. He also likes short-term trades on the EUR/CAD pair, as well as the CAD/JPY. The Canadian Dollar is a "resource" currency, so Rob likes to watch oil prices, as they directly correlate with CAD (and also AUD, and the NZD). He will also trade the USD/CHF when an opportunity presents itself, i.e. when traders "flee" to a "safe haven" currency like the Swiss Franc. He does not over-trade, waiting for the market to present opportunities to him, with a goal of making a modest and "do-able" 50 to100 pips weekly. He thinks in terms of "pips" and not dollars for his weekly goals, and does not get greedy, keeping a consistent, long-term perspective. Rob likes Bloomberg news, and so do I.

John Jagerson & Wade Hansen: John and Wade are fundamentalists, and watch the U.S. Dollar Index (USDX), as well as bank intervention of countries. They like the USD/JPY currency pair as a play off of the Chinese Yuan revaluations. Inverse relationship of CBOE "Oil Index" as compared to USD/CAD currency pair (CAD is the Canadian Dollar, which is a "commodity" currency). "The currency pair with the strongest reaction to rising oil prices is the CAD/JPY pair" (the Canadian Dollar strengthens, as the Japanese Yen weakens). "Safe haven" currencies in times of crisis include, USD/CHF ("Swissie"), and USD/CAD. Carry trade interest rate trades have involved the Yen, i.e. GBP/JPY (if the Bank of Japan raises interest rates, the JPY could still be a play as a carry trade. Look also to high interest rates in the AUD and NZD).

Both are trend followers technically. They use Fibonacci levels for stop loss areas, as well as for profit targets on retracements (.382%, .50%, .618%). Also, they look to Fibonacci levels of 161.8% and 261.8% for trend continuations.

Michael Archer & James Bickford: Both worked together as co-authors, and are technical traders. They have completed extensive currency pair data studies, i.e. characteristics of currency pair ranges, volatilities, as to days and weeks and months data. Worthy reading to establish your trading patterns, pair choices, optimum times of day, and best days of week to trade. Past works include; Getting Started In Currency Trading, The Currency Trader's Companion, and The Forex Chartist Companion series.

Check Amazon for their newest studies and books. If you love data and statistics, you'll love these books old and new.

James Dicks: James co-authored Forex Made Easy (the book that "started it all" for retail forex traders), and authored Forex Trading Secrets: Trading Strategies for the Forex Market, and has his own company called Premiere Trade www.JamesDicks.com. He likes MACD, RSI, Stochastics, Bollinger bands, and Moving Average Cross-overs (Moving average cross-overs was what his old "4x Made Easy" software was based upon years ago – now it's morphed into MBTrading as "Lightwave" – and James is not affiliated with it – he has his own products at Premiere Trade). James especially likes the 10, 25, and 89 period moving averages. You can get these standard indicators for free on almost all trading platforms, so, it's crazy to spend thousands of dollars for "smoke and mirrors" software. He also likes trends, support and resistance, ranges/breakouts, and pivot points.

George Thompson: George co-authored Forex Made Easy with James Dicks, and was the past president of 4x Made Easy and GlobalTec. Their software cost thousands of dollars then, and used “2 line moving average cross-overs” for buy and sell signals. You can get moving average crosses all day long for free virtually anywhere. 4x Made Easy is still out there, as of 2010, but has mostly faded away, as folks caught on to their ridiculous and over-priced software. I’ve left this paragraph here on purpose, to stay away from such software, but to still pay attention to moving averages and cross-overs.

They have since morphed into MB Trading as “Lightwave” for $99/month, using basically the same moving average cross-over to generate “red/green lighted” trend signals. Save your money, but pay attention to the recurring theme of the moving average cross-over in this ebook.

L.A. Igrok: Fundamental & Technical trader. Fibonacci retracements; 38.2%, 50%, 62.8% - especially more accurate historically for the USD/JPY. Stops placed 20 pips and up to the average daily range of the particular currency pair you are trading, depending upon your risk aversion.

Raghee Horner: Raghee uses Fibonacci levels as support and resistance, as well as stop loss levels. She also uses a “Dave wave” named after her friend, for establishing trends, which uses a 34 time period Exponential Moving Average (EMA). She uses 30, 60, 180, and 240 minute charts in comparison to one another for trends. Raghee uses Fibonacci retracement levels of .250, .382, .500, .618, .786, .886, 1.272, 1.618, and 1.886. She also refers to the “Commodity Channel Index” (CCI) for trade confirmations.

She avoids common, round numbers for her trade orders, i.e. 1.2200, .7100, or 110.50, as most novice traders place their trades at these commonly known price levels, known to banks, market makers, and professional traders, who will then take you out of your trades by “running stops” at these known price levels - they win, you lose. She likes “contingent orders” - placing a “stop loss” order, along with a “limit order” for her profit target, also known as “OCO” (one cancels other) orders (if one order is executed, the other order will cancel).

Raghee is an author and a guest expert advisor for www.Interbankfx.com.

Tim Weithers: Tim is a pure fundamentalist and economist. He represents the interests of UBS Bank. He believes you must know each country's currency and economy thoroughly, as well as Bank intervention policies.

Russell Sands: In the early 1980's two guys named Richard Dennis and Bill Eckhart developed a unique commodities trading system that gave them explosive profits in all kinds of markets. In fact Richard Dennis started with only $400. After a few years he had banked over $200 Million dollars!

In 1983, Richard and Bill made a bet. Richard said "We can teach others how to do this." And Bill said, "No…It can't be taught." So, to see if it could be "taught"… they ran a few classified ads in the Wall Street Journal, Barron's magazine and the New York Times offering to teach their unique system of trading the commodities/futures market. Russell saw the ad and called right away.

Over 1,000 people lined up to learn this commodities trading system. But Richard and Bill screened out over 950 people. Russell was lucky. They chose him to be one of a small handful of students they would train. Richard called his 14 students "The Turtles." The training only lasted 2 weeks. Then he gave them $1 million dollars each to trade with. Of course, he kept the lion's share of the profits, but out of the $175 Million in profits they took in, they got to split some $35 million between the 14 of them, as their share. This is all documented and verified. They even had to sign a secrecy embargo about these trading methods.

One of the original futures "Turtle Traders." Russell is a long term forex "trend" trader. He likes the long term "carry trade". He watches interest rates, politics, and economic cycles. He is also a "position" trader, who likes to trade large positions, only once in a while, letting his positions run, as opposed to shorter term day trading with lots of trades. He watches Fibonacci retracement levels.

If you are a serious trader or investor, with at least $10,000 in risk capital, consider Russells Forex Investment Advisory. Russell has been trading the markets since 1983, and is considered by many to be a master trader. He has made millions of dollars for thousands of traders worldwide.

Russell does all the technical and fundamental analysis for you while you reap the trading profits.

Russell Sands averages annually are 129.44% over three years, and are as follows (his calculations); 87.91% in 2006, 104.27% in 2007, and 196.13% in 2008. See www.sandsturtlefx.com for current trades and more details.

His trades last from around 4 days to 71 days, but could be more or less in the future. He uses the following calculator for "positions": http://www.iss-trading.com/calculators/ttcalc.php.

Here are the results of 7 original Turtles, who are still managing public money, or have made their results public. In late 2007 they posted these numbers as profits. Take a look:

Name of firm	$$ managed	% return	total profits
Chesapeake	1.4 billion	+ 2.33%	= $ 32 mill profit
Eckhardt	730 million	+ 35.21%	= $ 255 mill profit
EMC	171 million	+ 17.32%	= $ 29 mill profit
Hawksbill	42 million	+ 20.39%	= $ 9 mill profit
JDP	11 million	+ 4.05 %	= $ 1/2 mill profit
Raintree	1/2 million	+ 53.62 %	= $ 1/4 mill profit
Saxon	50 million	+ 38.70 %	= $ 19 mill profit

(This is the power of "Trend" trading!)

Art Palmer: Art Palmer's Forex investment advisory and trading signal service has produced average, non-compounded yearly gains of 185.65% for the past 4 years (his calculations). If you are a serious investor or trader, with at least $10,000, then consider subscribing to Art Palmer's Forex Trading Signal Advisory. With the current instability of the U.S. stock market, why not trade Forex with a 25-year veteran trader? Forex trades are chosen based on Art's technical analysis of daily and weekly trends. His "Power Forex" program will make an average of 4 trades per month, giving you specific trade signals for when to enter, and when to exit for each currency pair. A typical trade can last from as little as a week, to as long as 8 to 10 weeks. There will be times, however, when a trade will last longer than 10 weeks. Art's numbers are as follows:

Year	Non-Compounded Average Returns
2005	98.93%
2006	142.76%

2007	394.69%
2008	106.18%

(I repeat: This is the power of "Trend" trading!)

Rob Abels & Duane Davis: Rob is a multi-millionaire forex trader, who generated 64.38% average annual returns for 8 years in a row with his forex trading system. And he made $160,395 in profits, while trading just 6 different currencies, with almost 7 out of 10 winning trades, in the turbulent markets of 2008 to 2010!

Duane has teamed up with superstar forex trader Rob Abels – a reclusive multi-millionaire, who walked away from a fortune on Wall Street to trade his own accounts. Duane is a successful forex trader in his own right, and over the past 20+ years, he has written and "ghost written" many trading books, and programmed several successful software trading systems for himself and for others. In his own words, "Over the years, I've seen dozens of different trading systems – some of which you've probably traded. Some are better than others. But to tell you the truth, I never hit one that was the "jackpot" of trading … though some made darn good profits during certain times. But recently, I teamed up with superstar trader Rob Abels, and the system we've created together – the StrikerFX System – works like nobody's business."

Further, he states, "Had you traded the Striker FX System from 2002 to 2009, hypothetical results show that a ten thousand dollar account would have mushroomed to over 365 thousand dollars. During that same period, $10,000 invested in the Dow grew to a mere $10,436.16. Bottom line: had you traded currencies with the Striker FX System, you could have become almost 35X richer than your friends and neighbors earning average market returns had your results been consistent with our hypothetical performance. But remember that past performance is not necessarily indicative of future results."

They like to trade the U.S. dollar, the Euro, the British pound, Swiss franc, and Japanese yen. The pairs are EUR/USD, USD/CHF, USD/CAD, GBP/USD, EUR/JPY, GBP/JPY. They like to trade long term "macro" trends. They are looking at the present opportunities to benefit from a falling U.S. dollar. One of their favorite currency pairs is the EUR/USD. They love to *"buy the dips"* while following their trend lines (this is what "smart money" and professional floor traders do also). Their main focus, while trend following, is to use support and resistance and range “value areas” to pinpoint reversals and “turns” within the major trend.

They also trade certain “news” i.e. terror events, and political events, i.e. elections: “we focus on a special situation: a trading opportunity triggered by the midterm elections – large numbers of senators and congressmen running for re-election during the midpoint of Obama’s first term. Focusing on the economy and the world of business during the second year of a Presidential term is nothing new. It’s been going on for more than 75 years and for 19 Presidential terms. This is evidenced by the fact that *the S&P 500 Index has never had a declining year from October of the second year through December of the third year of each Presidential term.”* (Their emphasis is in italics. Also note their fundamental assumption of the inverse relationship between the U.S. stock market and the U.S. dollar index – USDX – which has generally worked in the past, but it is not guaranteed to work in the future. Thus, their assumption to go “long” the EUR against the USD, as the stock market rises.)

Lastly, they also make use of candlesticks, standard MACD settings, 15 and 50 period simple moving averages, and Bollinger bands, along with support and resistance levels, Fibonacci retracements, trend lines, RSI, Stochastics, ascending and descending triangles, double tops and bottoms, and wedge chart patterns, while trading from the 5, 15, and 60 minute charts. For longer term trend trading, they use daily and weekly charts. Their list of trending pairs include; EUR/USD, AUD/USD, GBP/JPY, GBP/USD, NZD/USD, CHF/JPY, USD/CHF, EUR/CHF, AUD/JPY, USD/CAD, EUR/JPY. Their non-trending pairs include; USD/JPY, EUR/GBP, GBP/CHF, EUR/AUD. www.striker-fx.com.

2008 - 2010

		Percentages	Totals	Averages
Trades	190		$ 160,395.03	$ 844.18
Wins	128	67.37%	$ 205,281.72	$ 1,603.76
Losses	62	32.63%	$ (44,886.69)	$ (723.98)
Ratio			4.57	
Largest Win			$5,865.51	
Largest Loss			($1,800.00)	
Maximum Drawdown			$ 2,366.28	

Forex Market	Date of Entry	Date of Exit	Long or Short	Entry Price	Exit Price	Profit or Loss	Total Profit or Loss
GBPUSD	4/29/2010	4/29/2010	Buy	1.5263	1.5283	$200.00	$160,395.03
GBPJPY	4/25/2010	4/26/2010	Sell Short	144.67	145.07	($445.20)	$160,195.03
EURJPY	4/14/2010	4/15/2010	Sell Short	127.42	126.52	$1,001.70	$160,640.23
GBPJPY	4/5/2010	4/6/2010	Sell Short	144.05	142.83	$1,357.86	$159,638.53
EURUSD	3/23/2010	3/23/2010	Buy	1.3535	1.3506	($290.00)	$158,280.67
EURJPY	3/17/2010	3/18/2010	Sell Short	124.77	123.30	$1,636.11	$158,570.67
USDCHF	3/16/2010	3/17/2010	Buy	1.0552	1.0506	($295.60)	$156,934.56
GBPJPY	3/12/2010	3/15/2010	Sell Short	137.53	136.59	$1,046.22	$157,330.16
GBPUSD	3/8/2010	3/8/2010	Sell Short	1.5144	1.5010	$1,340.00	$156,283.94
EURUSD	2/19/2010	2/22/2010	Buy	1.3493	1.3613	$1,200.00	$154,943.94
USDCHF	2/19/2010	2/22/2010	Sell Short	1.0838	1.0759	$679.40	$153,743.94
USDCHF	2/12/2010	2/17/2010	Sell Short	1.0754	1.0690	$550.40	$153,064.54
EURUSD	2/4/2010	2/4/2010	Buy	1.3848	1.3807	($410.00)	$152,514.14
GBPUSD	2/3/2010	2/4/2010	Buy	1.5912	1.5857	($550.00)	$152,924.14
EURJPY	1/28/2010	1/29/2010	Buy	125.62	126.49	$965.70	$153,474.14

George Soros: Currency Trading Billionaire and ex hedge fund partner of currency and commodity trader Billionaire Jim Rogers. Mr. Soros is Chairman of Soros Fund Management, LLC and founder of The Open Society Institute. He was born in Budapest in 1930. He survived the Nazi occupation and then fled communist Hungary for England, where he graduated from the London School of Economics. He then settled in the United States, where he accumulated a large fortune through the investment advisory firm he founded and managed. Mr. Soros is the author of eleven books, including most recently, The Soros Lectures at the Central European University.

Mr. Soros could be considered to be one of the “illuminated” ones. He doesn’t trade markets, he makes them! Well worth reading how he does it and how he thinks. You can sign up for his newsletter at www.GeorgeSoros.com. His books are on Amazon too.

One of his more important public and repeated comments involves the fate of the U.S. Dollar. In his opinion, it will continue to weaken. Jim Rogers also states, “Get out of the dollar, teach your children Chinese, and buy as many commodities as you can.” He moved from New York to Singapore in 2007. Truth is, there is a decades long plan to replace the U.S. dollar with the future North American Union’s own “Amero” (for the “Americas” – Canada, America, Mexico – do a search of your own and see for yourself). Target date is 2012. This is a similar move by “the powers that be,” of which Mr. Soros is one of these powers, to their creation of the “European Union’s” own Euro in 1999. Think it can’t happen here? We’ll see. It all starts as “free trade” and “protectionism.” It pays you dividends to see the *BIG* picture, or to at least be aware of the possibilities outside the “norm!” There is also speculation about a “world currency” in the making. Either way – *We’ll trade it!*

“If something isn’t done soon, I believe the dollar could lose its status as the world’s reserve currency and medium of exchange, something that would lead to a huge decline in living standards for U.S. citizens like nothing we’ve seen in nearly a century.” Jim Rogers, Quantum Fund Co-Founder.

Further, the “Illuminati” control the International Monetary Fund, World Bank, and World Trade Organization, as well as the Bank of International Settlements in Switzerland. They also have plans for a new “world currency” that has already been minted, as well as millions of *“world cash cards”* that have already been made in Salt Lake City, Utah (for a future “cashless” Orwellian society)! Look it up. This isn’t intended to be a “political” forum, so I’m not naming other names of the “controllers” – you probably already know them too.

What does this mean to you and me as currency traders? Reserving personal political judgments about it all, it means to fade the U.S. Dollar long term. And to realize it is being manipulated to its demise in the shorter term, by Bernanke and Obama and their puppet masters, with the monetary printing presses running wild, concurrently inducing inflation and a de-valuation of the U.S. Dollar (on 3-26-06 the “Fed” stopped publishing M3 reports, which measured the U.S. Dollar money supply). *Be a “trend” and “reversal” trader, with the final outcome always in the back of your mind.*

A modern example of inflation can be seen in Zimbabwe. Inflation got so out of hand that, for example, if an investor had $10,000 worth of investments in Zimbabwe, that investment would have been worth less than $1 in 15 days. While this is an extreme example, it illustrates the point: even a slow deterioration of an investment from inflation is avoided by major investors. A country with inflation higher than return on investment will be avoided by investors, which will lessen the demand for that nation's currency.

After a terrible couple of years of weakness against the Euro, the U.S. Dollar was rising again (5-2010), as the Euro was being manipulated over the “crisis” in Greece and the bailout process (they can thank Goldman Sachs) – making it weak against the U.S. Dollar and other currencies as well. The point is the Golden Rule - “he who owns the gold (and prints the money), makes the rules.” And the rules are being changed – so pay attention. *(Interestingly, as of 9-2011, almost all global currencies are suffering weakness, due to weakening fundamentals in world economies. However, all currencies are relative in their pairings, whether weak or strong, and can still be traded for profit$.)*

However, it’s the same old story and end result everywhere – a “debt crisis” is engineered by the power brokers, who cry panic, who then bail themselves and their buddies out, make it out to be the “people’s” fault somehow, someway (feel really, really guilty now), then the “only” solution is to create further “fiat” funny money, “tax” the innocent people to death and make *them* pay, AND make them work harder and retire later! Where oh where has all the bail-out money gone? The treasury looters and the financial pirates win again. And “the people” are stuck with a never-ending debt load that can never be re-paid, by design, and collapsing economies and currencies and inflation are the results. Go figure. This is why being an “in-the-know” currency trader is a MUST for your own future financial survival!

Important update – June, 2010! China once again allowed the Yuan to gain strength against the U.S. Dollar.

Billy Williams: Billy is a 20 year trading veteran and a featured writer for <u>Futures</u> magazine. He simplifies <u>trend</u> following by using a 13, 21, and 34 simple moving average cross-over. He also uses a standard MACD as a “secondary confirmation signal,” and he likes to buy and sell what he calls *“forex slingshots,”* or in other words, reversals against the main trend that tend to go against the trend, and then “slingshot” back in line with the main trend as it resumes. He uses price channels (enveloping support and resistance within the channel), pivot points, momentum, and the moving averages to identify these slingshot trades. He places his stops just above or below the day’s high or low price, when going “short” (trading a “downward” price move), or “long” (trading an “upward” price move) respectively.

Bill Downey: Bill is a veteran trader, since the 1980's, and Futures magazine writer. He likes to trade stocks, gold, silver, and "Exchange Traded Funds" (ETF's) i.e. "currency" etf's. He is a technical analyst. He likes moving averages, particularly a 13 and 34 period "Simple Moving Average" (SMA) cross-over. He also likes Fibonacci retracement levels. He likes to play the "pullbacks" in a major trend, while setting stops below the "lows" for up-trending markets. He also looks for "volume surges" (keep in mind this is for a currency etf, not spot forex, as well as an indicator for stocks). Bill likes the "ProShares UltraShort Euro" etf (EUO), and the "ProShares BD U.S. Dollar Index" etf (UUP). His site is www.goldtrends.net.

Marek Chelkowski: Marek is a CTA and feature writer for Futures magazine. Marek trades the spot forex market exclusively. He likes to trade the "cross-pair" currencies like the EUR/JPY, GBP/JPY, EUR/AUD, GBP/EUR, and the AUD/JPY. He likes the "carry trade" potential in the cross pairs, especially when the U.S. Dollar is weakening, and the cross pairs are often overlooked by other traders. Their trends can be smoother and less volatile at times when the USD pairs are more volatile. He is a fundamental and technical trader, who believes in wide stops and smaller positions, while patiently riding the trends, and capturing additional profits from the carry trade. He watches daily and weekly charts.

Peter Bain: Peter is a technical trader, utilizing ***"Pivot Points"*** as his main resource for trade entries and exits. He calculates his pivots at 3 pm EST, as opposed to 5 pm EST. He also likes moving averages, using the 9 and 18 exponential moving averages, as well as the standard MACD, Fibonacci, and Trend lines (with the 200 moving average for long term trends). He trades from the 5 minute and 1 hour charts, placing his entry and exit orders from the 5 minute chart. Peter also looks for Candlestick patterns for reversals.

COT Data or ***"Commitment of Traders"*** Reports (also discussed below in this section). Generally used by futures traders, this report comes out weekly (Fridays), and measures the "commercials" trade positions - net short, and net long positions. This gives you an idea of where the "smart money" is being placed, versus the non-commercial "dumb money," which "dumb money" is generally speculator's money that is generally

OPPOSITE of the “smart money.” ***“The commercials are sometimes early, but they are never late.”*** This means that you can see the direction of the smart money “commercials” and their trades. They know their business, in other words, and they are pros, so do not bet against them.

Peter is an astute currency trader, with a high winning percentage, and a superior teacher. He offers the best forex course about pivot points, and several others have copied him, literally. You can find Peter at www.Forex-Currency-Trader.com. He offers helpful and on-going support, a newsletter, and price/timing signals and alerts. Peter is worth every cent for his course materials and long term support. Pivot Point trading is highly accurate and profitable. Pivot Point trading is also the “secret used by Pro Forex and Floor Traders!” *(Pivot Points are used equally well by professional traders in all markets, especially in the forex, futures, and stock markets.)*

Larry Levin: Founder & President of Trading Advantage, a “Floor Trader” and author of How I Made $1,900,336.82 Trading Commodities. Larry loves *“Pivot Points”* and *“Support and Resistance.”* He keeps it simple, yet very effective.

Buzzy Schwartz: A top “Floor Trader” who stated that *“exponential moving averages are my favorite secret weapon.”* Read his book called Pit Bull.

MetaStock Pro FX: I’m including this as a “Pro Trader,” because many professional traders use MetaStock software in their daily trading ($995), and I want you to have it’s general settings and tools, to compare with the above trader’s profiles. Pro FX uses RSI, with a time period setting of 8, rather than the standard setting of 14. It uses the “relative strength index” (RSI) for its buy and sell signals, and the MACD and Moving Averages to confirm the signals. It uses the 5 minute chart for its intraday system (“day trading”) signals. It uses “exponential moving averages” (EMA’s) with 3, 12, and 50 time periods. This “system” identifies overall trend directions for all major currency pairs, by comparing the daily, 60 minute, 30 minute, 15 minute, and 5 minute charts. Pro FX also has a library of over 200 additional indicators and tools (not that you really need that many indicators). You may also wish to compare “Pro FX” to eSignal, Genesis, and TradeStation.

Chapter 4: Developing Your Own "Market Wizard" Forex Trading System

There is no perfect "Holy Grail" trading system in the world - not yet anyway. If there is, please let me know. I don't mind paying a thousand bucks for it. However, a market wizard trading system close to the holy grail is indeed possible, and I'll show you how to develop it, *based upon what we've already learned from the Pro and Millionaire Forex Traders above.*

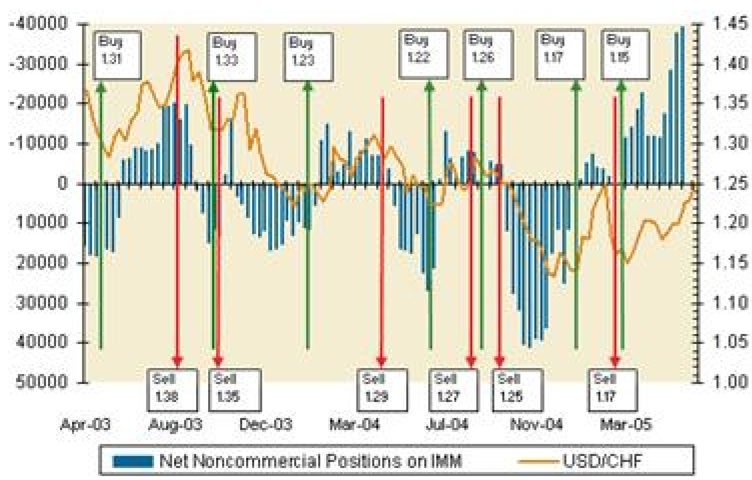
So, here's what we already know. Forex is the biggest financial market in the world, with its daily volume of transactions dwarfing the U.S. stock markets by 80 to 1. Its sheer size also makes it the best market to trade in terms of (1) high liquidity - Forex trades are almost always instantly executed, thus minimizing slippage; and (2) open and fair - it is nearly impossible for one to control or manipulate the general market for any length of time, rendering "insider trading" impossible to carry out, *given one trades through a true "Interbank" broker platform, with absolute transparency and "straight through processing" (STP), and not a broker's "dealing desk" that knows your positions and actually trades against you.* Over the years, this unfair practice has diminished considerably, especially after Dodd-Frank.

Let's dissect the market by taking a look at the players in the currency market. They are the financial institutions, commercial banks, insurance firms, pension funds, hedge funds, small funds, international businesses, private investors, retail traders and not forgetting, individuals. Each plays a part in determining the movement of a currency. We can divide them into two categories - "commercial" and "non-commercial."

The "commercials" engage in business activities requiring the use of currencies, whereas the "non-commercials" are into the Forex market for speculative purposes (other markets as well). Therefore the approach of the "commercials" and "non-commercials" is very different - when the "commercials" buy, the "non-commercials" sell, and when the "commercials" sell, the "non-commercials" buy. It is this different point-of-view from two different types of trader categories that moves the Forex market and other markets too.

We have gone through the easy part of identifying the movers of the market. The question now is, “how do we use this piece of information to trade Forex successfully, and how do we use the above information to help us develop our Holy Grail (almost) trading system?”

We have determined who the major “influencers, movers, or trend setters” of the currency markets are. The “commercials” are involved in businesses that generally require Forex transactions, i.e. commercial banks, insurance firms, and international companies. On the other hand, the “non-commercials” are in the market solely for speculative purpose, i.e. hedge funds, small funds, private investors, retail traders, and individuals. The CFTC provides free “COT,” or “Commitment of Traders” reports, and follows these reports for you, and gives you trade data concerning them. You can check this CFTC link for currencies and the “Eurodollar” and other futures COT reports at www.CFTC.gov.

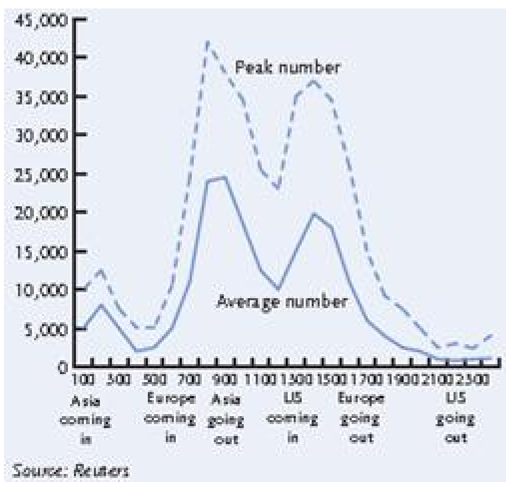


This will give you an initial “leg up” on general trending market directions. The “COT” reports are “futures” based, but can still give you a “predictive” edge for the “spot” currencies (if you’re not trading the “futures” currencies). COT Reports can be confusing to interpret, so don’t lose sleep over it. Peter interprets them for you on **www.Forex-Currency-Trader.com**.

Now let’s answer a few simple questions…

Chapter 5: What Are The Best Times To Trade Forex?

Even though the Forex market opens 24 hours a day, 5.5 days a week, there are specific times in a day where the volume of transactions are higher. These are the London session (3 AM EST to noon EST), New York session (8 AM EST to 5 PM EST), and Tokyo session (7 PM EST to 4 AM EST), in the order of market volume size. Therefore, the most profitable trades, in terms of price movement, are usually found in these times. It is advisable for traders to trade during these times, or you'll miss some very sizable moves. *The most optimum trading time is New York, from 8:00 AM EST to 12:00 AM EST.*



Remember, the most active trading times are generally when 2 or more equity markets are open. This is *not always* true. BUT, the ***best times*** are generally from 2:00 am EST to 12:00 am EST, with the optimal U.S. times being between 8:30 and 11:30 am EST. Most "news" releases come in at 8:30 am, so be ready to trade beforehand. The markets still move in the afternoon and at night, however. And, it's only a half day Sunday, so, it's really 24/5.5 (not 24/7). You really don't need to lose any sleep to trade forex successfully.

Chapter 6: What Are The Best Currencies To Trade Forex?

Every nation in the world has its own currency - the U.S. dollar, Canadian dollar, Russian ruble, South African rand, Mexican peso, Thai baht, Indian rupee, and so on. However the most traded currencies, with the highest volume and liquidity, are the euro, Japanese yen, British pound, and the Swiss franc, with the euro *(EUR/USD) being the most heavily traded and liquid currency pair (EUR/USD is approximately 28% of total trades/volume -USD/JPY is 17% of total - GBP/USD is 12% of total – AUD/USD is 6% - USD/CHF is 5% - USD/CAD is 4%).*

The *"Majors"* include; EUR/USD, GBP/USD, USD/CHF, USD/JPY, USD/CAD, AUD/USD. Some *"Crosses"* to consider include; EUR/CAD, CAD/JPY, EUR/AUD, GBP/JPY, CHF/JPY, EUR/CHF, AUD/JPY, EUR/JPY.

Chapter 7: Who Is The Best Forex Broker?

This is a personal decision for you to make, based upon your experiences with your trading "demo" accounts. I personally like **www.FXCM.com**, **www.Interbankfx.com**, **www.Oanda.com**. (This is not an investment recommendation or advice. I am not an affiliate, nor do I receive any compensation as an "Introducing Broker" for these brokers, or for any other brokers or trading platforms. It is my personal, uncompensated opinion, and not an endorsement, for the sake of complete transparency, with you, and pursuant to the FTC and CFTC guidelines concerning endorsements. Please try their "demos" and do your own due diligence.)

You may also be interested in researching www.GFTforex.com and www.CITIfxpro.com.

Chapter 8: What Are The Best Technical Analysis Tools Forex Market Wizards Use?

In order to profit from the market, timing is essential - "buy low and sell high." Easier said than done! Every trader knows this. So how can one time his or her entry or exit? *By using the top indicators and oscillators and signal generators the Pro Forex Market Wizards and Millionaire Traders use!*

Here's how you should trade the currency market. You should develop your "Holy Grail" (almost) trading system based on the following already "proven" tools of the trade, used by the above pro and millionaire forex traders. It has also worked for me, which is why it could work for you too. ***The Forex trader who wants to be successful, needs to come armed with a box of tools, and a set of rules, and now you have all the tools of the millionaire forex traders, so you too can enjoy "the thrill of the chase" to become a millionaire forex trading wizard!***

Here's what we know about what is proven to work:

The pros usually base their trades on certain ***pre-defined price levels (and "ranges")***. They don't just enter or exit "willy-nilly" whenever they like. These price levels are the *Support and Resistance* that many of us come to know. Currencies tend to move well between these Support and Resistance levels. The most common methods to "confirm" the Support and Resistance levels are *Fibonacci retracements and Pivot Points*, all the while following your *Trend lines and Exponential Moving Averages*.

When the support and resistance levels are determined, the next step is to look at price action at these levels - whether price will *break through or reverse*. Additional methods to assist our analysis of price action is through the use of *Candlesticks and Chart Patterns*. www.ibfx.com has pre-calculated Candlestick and Chart patterns in it's charts!

Once you have determined the entry point from the above two steps, boost your confidence and probabilities in triggering the trade, with the use of indicators such as *Stochastics, RSI, and MACD*. Even though these indicators are lagging in nature, the appearance of *"convergence"* and *"divergence"* in Stochastics, RSI, and MACD, is generally accurate confirmation, and convergence and divergence can sometimes even appear to be “leading” signals.

Always keep a wary eye on the latest fundamental economic data, which affects the currency - beware of breaking *news*, which includes release of important economic data that may add volatility to the timing of your trade, maybe even reversing the current trend. Breaking economic news can potentially influence price movement significantly, and possibly render your technical analysis meaningless. ***Watch the economic calendars, available for free, on almost every forex trading platform.***

Report	Description	Degree of Impact	Typical Release Date	Released by	Period Covered
CPI	The Consumer Price Index measures the average change in prices for a fixed basket of goods and services	High	10th Business Day	Labour Dept. Bureau of Statistics	Prior month
Durable Goods	One of a series of manufacturing and trade reports. Focuses on new orders	Moderate	18th Business Day	Commerce Dept. Census Bureau	Prior month
Employment	A survey of households providing very timely information on the rate of unemployment	Very high	First Friday of the month	Labour Dept. Bureau of Economic Analysis	Prior month
GDP	Gross Domestic Product measures the value of items produced within the US	Very high (for initial est.)	20th Business Day	Commerce Dept. Bureau of Economic Analysis	Prior quarter
Housing Starts	Measures new residential units started. Most significant for the financial markets during turning points in the business cycle	Moderate	15th Business Day	Commerce Dept. Census Bureau	Prior month
Industrial Production	Industrial Production measures output in manufacturing, mining and utility industries	Moderate	15th Business Day	Federal Reserve	Prior month
Merchandise Trade	Details the monthly exports and imports of US goods	Moderate to high	Third week of the month	Commerce Dept. Census Bureau	Two months prior
NAPM	The (National Association of) Purchasing Managers Index is a composite index of new orders, production, supplier deliveries, inventories and employment	High	First business day of the month	National Association of Purchasing Managers	Prior month
PPI	The Producer Price Index measures the average domestic change in prices, less discounts received, by wholesale producers of commodities	High	10th business day of statistics	Labour Dept. Bureau	Prior month
Retail Sales	A measure of consumer spending, reporting on sales of both nondurable and durable consumer goods	High	Mid-month	Commerce Dept. Census Bureau	Prior month
Unemployment Insurance Claims	Reflects actual initial claims for unemployment insurance filed with state unemployment agencies	Moderate	Every Thursday	Labour Dept. Employment and Training Administration	Prior week

Remember to implement an appropriate <u>*“stop-loss”*</u> in case price goes against you - <u>*never risk more than 1-5% of your account monies per trade*</u> (12% is VERY HIGH risk). Also, keep in mind, there are other forms of risk, i.e. global risk and country risk (war, natural disasters, politics), currency risk (devaluations, interest rates), broker default risk (remember Refco’s default), market and currency risks of trading generally, and technological risks (computer/electronic outages on either side of the trade).

Now let’s sum up what our Forex Trading <u>*“Market Wizards”*</u> and Millionaire Pro Forex Traders do on a daily basis:

1. They have a confident and positive mind-set and attitude.

2. They approach their trading un-emotionally, and think “long-term.” Fear and greed are under control, rather than being controlled

by them.

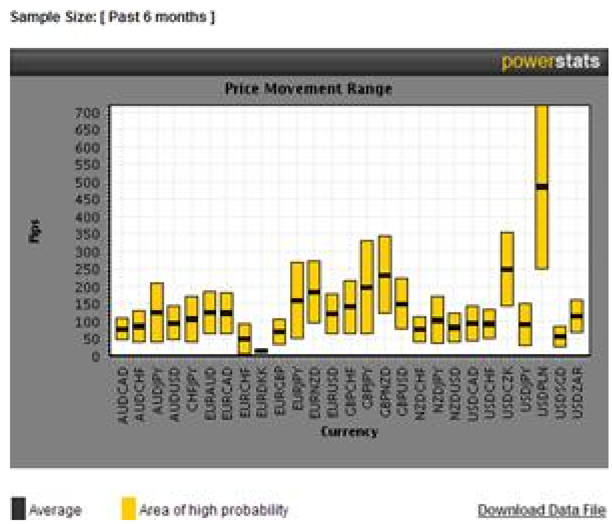
3. They use indicators, oscillators, patterns, signal generators, and "tools of the trade" that are already proven to work.

4. They trade with a consistent plan, with price targets, stop losses, and proper money management techniques, while re-investing profits to compound profits over time (and using "carry trades" when available). (It's a good idea to "paper trade" and practice, until you get comfortable with your ***"trading business."*)**

Let's sum up their favorite (and mine) indicators, oscillators, settings, and time frames - *a recurring and consistent theme throughout this ebook, to reinforce your learning experience*. There is a remarkable similarity of the above, when comparing the pros one to another, and extracting their data.

They use as a group:

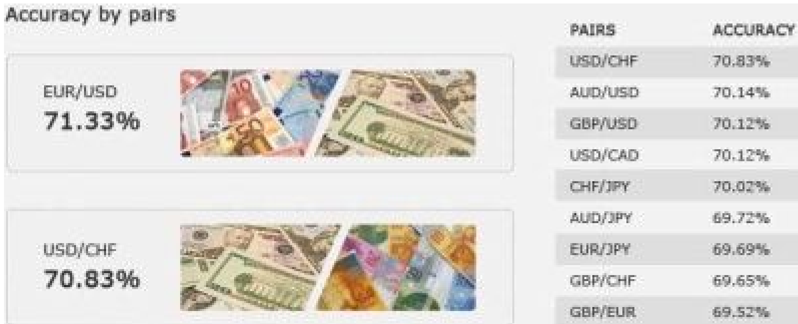
1. Moving averages
2. MACD
3. RSI
4. CCI
5. Stochastics
6. Fibonacci
7. Trend Lines
8. Chart Patterns
9. Support and Resistance, & Pivot Points (known also "trading ranges"). www.Interbankfx.com has a "Pip Range" tool for updates at www.ibfx.com/Tools/Power-Stats.aspx.



10. Bollinger Bands
11. Candlestick Charts
12. "Confluence" – time frames – 5, 15, 30 minute, 1 hour "day trading." Also, a confluence/similarity between indicators, oscillators, patterns, trends, candlesticks, etc. when comparing each to another/all for proper trade set-ups and confirmations.
13. They know and understand *"Probabilities,"* and that these probabilities are *dynamic and changing*, not static (and understand price "ranges." See also the www.ibfx.com charts below, and ***always get up-to-date measurements and statistics***).

Here you see that trading from the **30 minute** time frame chart increases your probabilities of winning your trades (at the time of this study).

Here you see that trading the **EUR/USD** currency pair increases your probabilities of winning your trades (at the time of this study).



Here you see that trading the **Inverse Head and Shoulders** pattern increases your probabilities of winning your trades (at the time of this study).

Always check your platform's tools and trading charts for updated and accurate prices, statistics, and probabilities! ***The above studies include probability samples taken from 1999 to 2009, a 10 year study!*** These results and more, with training videos, can be found at **www.ibfx.com/Tools/Power-Stats.aspx**. See also **www.AutoChartist.com**.

Chapter 9: *"Pulling The Trigger"* – The Secret *"Ammo"* Of Millionaire Forex Trading Wizards!

You have your positive trading confidence, and you now have your millionaire pro forex trading tools. You're ready to *"pull the trigger"* to start making profitable trades. Here are some final suggestions, based upon all of the above forex trading details for your success. Some repetition is on purpose, and repetition really is "the mother of learning."

"Specialize" in 1 or 2 currency pairs at first. Add pairs and test them long the way. Profits exist in virtually every pair, so there's really no need to "chase" every currency pair for the "same" profits – it's simply too hard to keep track of what you're doing, and it's completely unnecessary. Specialize in any of these "major" pairs to start with, and/or to continue trading long-term: ***EUR/USD, GBP/USD, USD/CHF, USD/JPY, USD/CAD, AUD/USD.***

Trade from the 5, 15, and 30 minute, and 1 hour charts for "day trading." Establish trends and "confluence" (similarities) between chart periods, i.e. place your trade entries/exits from the 5, 15, or 30 minute charts, while establishing confluence and trends between all four periods. Trade from the daily, weekly, and monthly charts for longer term trending and carry trades.

Don't force trades just to trade*. Let the trades come to you**, by way of clear patterns and signals, which offer you ***higher probabilities of winning trades. Rely upon your indicators/oscillators/chart patterns to indicate trends, ranges, breakouts, and reversals. There is no need to guess or predict market direction.

Use proper money management of 1-5% of your account per trade, with lesser risk per trade (***1-2%*** would be even better). Consider scaling in and out of your trades, lessening risk in, taking profits out. Don't over-trade, or trade just to trade for the fun of it. Keep a long-term perspective, and treat your trading adventure as a ***trading "for profits" business.***

Set realistic, long-term goals for making money and making a living at forex trading. If you have an impulsive personality, or have a "gambling" mentality, then forex is not for you, and neither is any other form of trading for you. Becoming a millionaire isn't going to happen in a few months, or in a few trades. Millionaire traders become millionaires by setting realistic goals, and having grounded expectations, based upon the longer-term, and by taking "small bites of the elephant" in the short-term. Eventually, long-term patience and consistent, disciplined application of proven principles, allows for the average trader to become the millionaire trader he wants to be – finally digesting that big elephant over time. Be patient, it's going to happen for you. Everyone starts from the beginning – really. ***Shoot for a reasonable 50-100 pips per week, or 10-20 pips per day.*** Increase your personal goals as you progress and gain confidence and experience over time.

Use the following indicators, oscillators, and settings:

A. **Moving Averages** = Simple and Exponential, with an emphasis on "Exponential" and "Zero Lag" – both available on www.ibfx.com. The common MA's are; 5, 10, 20, 50, 100, and 200. The uncommon MA's are; 9, 18, 62, 144. You can also "curve fit" your averages to the "personality" of each currency pair. In other words, change the periods to "fit" the curves of the highs and lows you see that are already established on the chart, and to "cup and hold" the bottoms, and to "cloud and cover" the tops of the prices currently in the chart(s).

B. **MACD** = Standard settings.

C. **RSI** = Standard settings.

D. **CCI** = Standard settings. Or, simply use Pivot Points, which incorporate CCI.

E. **Stochastics** = Standard settings.

F. **Trend Lines** = Standard lines drawn. (Consider also "Price Channels," i.e. Keltner Bands & Donchian Channels if available to you on your broker platform.)

G. **Fibonacci** = Standard retracement levels.

H. **Support and Resistance** = Standard support and resistance lines drawn.

I. **Pivot Points** = Standard pivots calculated to 2 or 3 pivot levels.

J. **Chart Patterns** = Head and shoulders, double and triple tops and bottoms, triangles and wedges, price channels up and down.

K. **Bollinger Bands** = Standard settings. (Consider also *"Volatility Bands"* to "tighten-up" your Bollinger Bands, if available to you on your broker platform.)

L. **Candlestick Charts** = See Section 2 for the most important Candlestick formations. Steve Nison has an excellent Candlesticks book for deep analysis.

M. **Chart Time Periods** = 5, 15, 30 minutes, and 1 hour for intra-day trading; daily, weekly, monthly for inter-day trading.

I suggest you choose 3-5 indicators/oscillators, after you have practiced with each of the above. You'll instantly be able to see what is visually intuitive to you and what is not as helpful to you. Less is more here. Use what works for you visually and in combination with what else you choose to use, and eliminate what doesn't work for you visually. For example; after you establish your trend lines, next establish your support and resistance (pivot point) levels. Next look at your Fibonacci retracement levels. ***SEE*** where the price is currently and relative to any *cycles and highs/lows, and the above support/resistance and Fibonacci levels*.

What you're looking for is trend continuation and/or reversals. *Remember "confluence" between your time period charts, i.e. 15, 30, and 60 minute charts, <u>as well as similarities in your chosen signal indicators</u>, showing similarities for confirmation of proper trade set-ups.*

<u>You should always have your moving averages/crosses and MACD plotted.</u> **Buzzy Schwartz, a top floor trader, has said that "exponential moving averages are my favorite secret weapon." Read his book called <u>Pit Bull</u>.**

Next watch your RSI and/or Stochastics for *convergences/divergences*, as well as for *over-bought* or *over-sold* conditions. With practice, over time, you can also look for *reversals* and confirmations of reversals with *candlesticks* and *chart patterns*, and some trading platforms will do this for you.

I also suggest you begin trading from the 15 minute, 30 minute, and 1 hour charts. Refrain from using the 1 minute charts, as the 1 minute charts are far too volatile, even for the pros.

Choose a reputable broker with "Straight Through Processing" (STP), in other words, choose a broker that doesn't have a "dealing desk" that trades *against* your positions, or your doomed before you even start. You want a ***NON-DEALING*** desk broker, that provides you with TRUE Inter-Bank forex trading, i.e. <u>www.FXCM.com</u>, <u>www.Interbankfx.com</u>, and <u>www.Oanda.com</u>.

Finally, Learn to trade "visually" and rely upon your charts and what they're telling you. I have several charts below, which continue our above discussions concerning charts, indicators, oscillators, and the signals generated from them. It's impossible to capture every scenario, but the following charts represent common occurrences, and should prove useful to you as pre-cursors to what you will experience in your future days as a successful forex trader.

Remember to "demo" trade and practice using your platform's charts and indicators first, and before placing "real" currency trades.

Your first step in trading any currency pair is to always…

Establish the trend direction using Trend Lines and/or Moving Averages (even Price "Donchian Channels" or "Keltner Bands.")

Establish Your Price, Support/Resistance, Pivots, & "Fibonacci Retracement" Levels for Your Buys/Sells, Entries/Exits within Known Currency Pair Trading "Ranges."

Establish Each of Your Indicator/Oscillator Trade Set-Ups & Confirmations in Tandem with Your Above Buys/Sells, & Then Place Your Winning Trades!

It really is that simple. Don't "over-think" it. Remember that "less is more" and there is no need to "guess" or to predict market movements – **FOLLOW the markets**, and make money, maybe even millions! Einstein said it best – "Simple is sophisticated."

My sincere and best wishes to you for your total success in life, and in becoming the next Forex Trading Millionaire "Market Wizard!"

End

"How To Become A Successful Forex Trader"
Volume 4: Forex Market Wizard's Guide To Forex Trading Profit$

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This treasure chest is not a lost Spanish gallion sunk on the bottom of the sea, or a stashed or "buried hoard" from the past, but recently "geo-cached" and "hidden" in plain view. If you take the proper course, you will see the Forrest amidst all of the trees…

Gold: The Ultimate "Global Currency" For Personal Insurance…

Consider the price of gold in 2012, at $1600+ an ounce, and the important implications pertaining to the value of gold (and precious metals), i.e. all that has happened in the financial world since 2008, as you read this nostalgic gold report from 2004…

At the time of writing this original report (January 2004), gold was selling for $394.60 an ounce on the open market.

In 24 months (to 2006), gold went up 56%, more than plus $130 an ounce. And consider that gold at $390 an ounce, was still less than 50% of its cost in 1980.

The convergence of a half-dozen major financial and economic factors means that gold could easily soar to its highest level ever in the next 6 to 18 months, potentially far surpassing its previous peak of $850 in January 1980.

Other rare and precious metals, including platinum and palladium, also could reach new highs, creating many wonderful investment opportunities. While it is true that investors may make a killing on gold, it is not the real reason we are recommending it: *Gold is the ultimate insurance for your portfolio…*

Every investor, from those with $10,000 portfolios to billionaires, should own some gold assets. In fact, in the turbulent times in which we live, most billionaires already have gold in their portfolios.

We have recommended that you put 5% to 10% of your net worth into gold and gold-related investments. We stand by that recommendation today.

Remember, an investment in gold is not about profits. If they materialize, fine. If they don't, you still own a valuable commodity. Gold is really about the preservation of wealth, rather than making money. It's the ultimate insurance, as countless immigrants and refugees can testify.

A European investor who lived through World War II once said gold was a form of "bulletproofing" your wealth. We strongly agree.

Why Gold Is the Ultimate Hedge

Traditionally, gold is an investor's last refuge during hard economic times, the ultimate store of value, and a hedge against crisis. When most other investments are going down, gold goes up. War, which devastates most investments, is strongly bullish for gold.

Throughout most of human civilization, gold has been the most universally accepted money and one of the best stores of value. Here's why:

Gold has high "intrinsic value." Unlike paper currency, people want gold for its own sake — because it is beautiful and has innumerable valuable uses in metallurgy, art, jewelry, decoration and now electronics.

Gold is rare. Tons of ore typically must be mined to extract a single ounce of gold. All of the gold ever mined in the history of the human race would occupy less space than
a large home. That scarcity preserves gold's high value through the ages.

Gold is divisible, and each unit has the same value. Gold is virtually the same price anywhere in the world. And dividing gold into small amounts does not change its value, as opposed to a diamond, for example (two, one-carat diamonds aren't worth nearly as much as a two-carat diamond).

Gold is stable. In Chicago in 1930, a few one-ounce gold coins would buy the finest suit in town. Today, in any large U.S. city, the same few one-ounce gold coins also would buy you the best suit in a major clothing store.

Gold is nearly indestructible. Gold doesn't tarnish and it's extremely durable. Even if the bullion gold coins in your home safe melt from a house fire, the resulting lump
of gold will be almost as valuable as the original coins.

Gold is highly liquid. Not only can you count on gold being worth as much or more 20 years from now as it is today, you can convert it almost instantly into cash.

Seven Reasons Gold May Go Up

Factor #1: A Weak and Falling Dollar

In the last 16 months, the dollar has lost an incredible 33% against the euro, 15% against the yen, and also has fallen against most other major currencies — and the bottom is nowhere in sight.

The Economist (2-7-04) predicts a fall of at least another 20% over the next few years. Weiss Research says the fall could be more like 50%.

Another factor in the decline of the dollar is oil trading. OPEC currently conducts all of its transactions in dollars. But in the next few years, OPEC will begin using euros (and are talking about creating their own "oil currency"), a move that will have disastrous consequences for the dollar. Even a modest continued decline in the dollar will almost certainly push gold prices upward, since the dollar and gold move in inverse relation to each other (most of the time). A strong dollar during the '80s and '90s made for weak gold prices. Thus, if the dollar falls by 20%, gold almost certainly will rise by at least 20%, if there is no disconnect in their inverse relationship.

The falling dollar also means that gold stocks likely will move up by much more than 20%, and probably by at least 30% to 40%. Some of the best stocks (with low production
costs), could go up 200% to more than 700%, as they have in the last 18 months.

So, even a modest continued fall in the dollar makes gold and gold-denominated investments an excellent risk. Where else can you even get a 20% to 40% return with little downside risk?

In fact, we expect the dollar to fall well above 20% due to skyrocketing debt in the U.S., as discussed below.

Factor #2: Skyrocketing Debt

Consumers in the U.S. now have an unprecedented $2 trillion in debt. What makes this particularly troublesome, is the fact that the average credit card interest rate is over
16%.

Government at all levels is also drowning in debt, and at least 42 of the 50 states have serious budget deficits. California is attempting to "solve" its economic woes with a new bond proposal, to be voted on by California voters March 2. Gov. Schwarzenegger and the Democrat-controlled Legislature will tackle the $15 billion deficit by borrowing $15 billion with a new bond float. That means the tax-payers next year will have to pay even more to cover the debt financing. California, like most of America, has a terminal addiction to debt.

Both individuals and institutions have gone into debt faster and further than at any time in 30 years. "Spend today and worry about paying tomorrow" is a philosophy that has permeated our entire society.

Globally, the McAlvany Intelligence Advisor reports that the U.S. sits at the top of a $38 trillion debt pyramid. Remember that at some point the debt has to be repaid. This enormous debt is highly inflationary and will cause the dollar to fall even faster in the months to come.

Factor #3: Disappearing U.S. Jobs

In early February, Wal-Mart replaced General Motors as America's largest employer. Instead of a being nation that makes things, America is increasingly becoming a nation
that buys things.

Manufacturing jobs paying $50,000 a year are being replaced by $15,000-a-year service jobs. The average Wal-Mart salary is a poverty-level $13,861 a year. In the past
four years, the U.S. has lost over 2.5 million jobs, many in manufacturing.

This situation translates into an even weaker dollar —and much higher gold prices.

A senior U.S. congressman confided in FIR the real reason the president is pushing his "Mars project." The $1 billion for the program will keep employed an estimated 100,000 scientists and engineers, which America desperately needs for its future military and economic viability.

Factor #4: Pitiful Bank Interest Rates

Why tie up your money in CDs for one or two years at 2% when you may make 10% to 30% a year buying gold and gold-related investments.

Why invest in shaky stocks or what may well be NASDAQ Bubble 2 when you own gold stocks and options that may return 25% a year or more, with much less downside risk?

More and more people are becoming aware of the enormous power of investing in gold in the current environment.

At some point, probably soon after the 2004 election, Alan Greenspan and the Federal Reserve will slowly begin raising interest rates. The reason is simple: They have to stave off a meltdown of the U.S. dollar. (2012 - Didn't happen, as we currently see some of the lowest interest rates in history.)

A former Reagan administration official, at the highest levels, recently explained why the once anti-China Bush administration (remember the EP-3 incident in 2001?) is suddenly adamantly pro-Beijing, and critical of Taiwan.

Here's the story: Recently, foreign investors have been fleeing U.S. debt instruments. The Chinese Central Bank, along with the Bank of Japan, has been bailing us out by buying our government debt at extremely low rates. But this can't last forever. China obviously understands completely how bad the U.S. economic situation is, which may be just one reason China is also the largest purchaser of gold on world markets. (2012 – Still true.)

Factor #5: Chinese Buying of Gold

China is becoming a bigger and bigger player in the global demand for gold.

According to Weiss Research, China recently doubled its gold reserves to 500 tons. That's still a tiny 2% of its total currency. In proportion to currency in circulation, Third World nations such as Bolivia and Zimbabwe have 15 times as much gold, and the U.S., France and Italy have 25 times as much.

To have a true world-class currency (which China has said repeatedly it intends to have), Beijing will have to increase its gold reserves 25-fold, to 12,000 tons of gold. That's the entire world production of gold for five years! Any move by China in this direction would put enormous upward pressure on gold prices.

And the Chinese government is not the only factor. For the first time in 50 years, Chinese citizens are being allowed to buy all of the gold they want to, and there are

1.2 billion of them, with an estimated $1 trillion in savings. At the same time, “a shocking 45% of the loans made by China’s four largest banks are now in default,” according to Weiss.

So the Chinese are turning to gold, the traditional store of value in Asia. The newly “wealthy” in India, Taiwan and many other Asian countries are also doing the same.

The U.S. dollar, once “as good as gold,” no longer is.

Factor #6: No End in Sight for the War on Terror

By all indications, the War on Terror is heating up rather than slowing down. Just look at the recent police station massacre in Baghdad in which 50 people were killed, the subway bombing in Moscow in which scores died… and dozens of recent terrorist attacks in Israel. In the last few months, the U.S. has quietly sent troops to several African nations as well as Colombia, Pakistan, the Middle East and now Haiti. There are now U.S. troops in 145 nations, and most won’t be coming home anytime soon.

Any major war that affects the West is extremely bullish for gold, and nothing is more bullish than global war, like the one we are now in. There are three major reasons for this:

First, war produces enormous uncertainty and fear, and during such times people want wealth they can hold in their hands rather than pieces of paper (like stock certificates).

Second, in the long run war reduces the demand for most consumer goods and hurts non-defense industries, making shares of such companies much less profitable and attractive.

Third, war consumes and destroys resources, increasing demand for commodities like gold, which is used in many defense products such as electronics.

Vice President Dick Cheney says that the war on terror is like no other war we have fought. He says it could last a generation or more.

This notion of perpetual war for perpetual peace is one that will have a tremendous effect on your investments. As we noted, this constant sense of war undermines economic
security, making gold more valuable.

Cheney’s statement also has grave implications for the federal deficit. In the 1980s Reagan ran up huge deficits in rebuilding America’s military might. But there was an end
Game, and within six years, the Soviet Union collapsed.

With the demise of the Evil Empire, America got a huge “peace dividend”: Military spending was slashed and federal surpluses soared. While some Bush administration officials have compared the current deficits to the Reagan ones, there is a big difference. As the Soviet Union collapsed, there was light at the end of the tunnel; with the war on terror, there is none.

Factor #7: The Threat of a WMD Attack on America

The recent discovery of the deadly poison ricin in a Senate building has underscored the fact that the threat of a major terrorist attack on America continues. In just the past few months, the FBI has released several letters and tapes from al-Qaeda threatening major new attacks on U.S. soil. By using biological or radiological weapons, just a few terrorists could launch such attacks.

An attack on our soil with a chemical, biological, radiological or nuclear weapon is not only possible but also likely. U.S. officials have been warning of this. Even Bill Clinton warned that the use of such a weapon was not a matter of if, but when.

As the brilliant financial expert Warren Buffett warns, if the one-year probability that a weapon of mass destruction will be used is 10%, then the chance of avoiding a WMD attack over 50 years is just one-half of 1%, and the probability that such an attack will occur is over 99%!

The use of a WMD on U.S. soil that killed thousands would be the ultimate nightmare, and would send gold prices into the stratosphere. Under such circumstances, gold could easily go to $2,000-$5,000 an ounce.

If the U.S. dollar and our economy do at some point go into complete meltdown, and a WMD may be such a trigger. Prudent investments in gold, particularly gold held offshore, would enable you to survive financially and even prosper.

A Perfect Storm for Gold?

All of the factors listed above translate into higher gold prices for the foreseeable future. No wonder everyone from college students to billionaires is now buying gold. We could be looking at what amounts to a “perfect storm” for higher gold prices for the next five to 10 years. (2012 - Or longer.)

If present trends continue, look for $500 gold within a year and $1,000 gold within five years. You can also expect similar increases in platinum

and other rare and precious
metals. (2012 - $1600+ gold prices.)

But even if metals markets decline in the short term, gold remains your best insurance for economic bad times.

Five ways to invest in gold…

1. Bullion: Gold Coins and Bars

This is the simplest and safest way to invest in gold. Bullion coins are gold coins that sell for very close to the current "spot" price of gold on the stock exchange, now about $375. Premiums (the amount you pay over spot) are lowest for one-ounce coins such as the Canadian Maple Leaf (4%), Mexican Corona (2%), South African Krugerrand (1%)
and Austrian and Hungarian Korona (2%). U.S. Eagles have a significantly higher premium (about 5%), but you can usually get the additional monies back when you sell
these popular coins.

Bullion gold coins are available nationwide through national coin sellers and your local coin shops. Generally, you will need to buy at least $1,000 worth "for investment
purposes" to avoid state sales tax, or buy over the Internet or out of state and have them shipped to you (insured, of course). Also, always get pricing from a national company for
comparison with local coin sellers.

We do not suggest that the bulk of your portfolio sit in gold coins. This gold is for emergency situations and short-term needs. If you had a net worth of $2 million, you certainly wouldn't want to put $200,000 (10 percent of your portfolio) into gold coins sitting in your home or bank vault (and remember, in a major financial crisis you may not have access to your local bank vault).

2. Rare or Numismatic Gold Coins

These are old and collectible coins that sell for significantly more than spot prices. In the case of very rare coins, they can sell for hundreds or even thousands of times spot
prices.

3. Gold Stocks

Gold stocks have been a terrific investment during the last few years, and both individual investors and corporate investors are putting 5% to 10% of their money in select shares.

Of course, as with all investments, there is always the risk of loss. But as we're previously mentioned, some gold stocks have soared by as much as 1,000% during the past few years as physical gold went up by just 50% during the same time.

Part of the reason is that for some gold mining companies, a 10% increase in gold prices translates into a 100%+ increase in profits. For example, the average cost of mining an ounce of gold in Canada is just $169 (costs for South African mines now average $222 an ounce). So every dollar above that price in gold spot market prices translates into a substantial increase in profits — with proportionate dividends and returns for shareholders.

This leverage coupled with the liquidity of the stock market makes gold stocks a very attractive investment, with potentially high cash returns, which you simply can't get by
holding gold coins or bullion.

Unfortunately, the recent sharp rise in many gold shares also means that you now need to be very careful and selective about investing in gold stocks. The reality is that bargains
or even good buys are now very hard to find.

Most gold stocks are now selling at prices based on anticipated $500-an-ounce gold as investors "crowd" into these stocks. If gold doesn't go at least this high in the next few years, many of these stocks will likely turn out to be losers.

There is also the danger that if there is another major terrorist attack on U.S. soil, you may not be able to sell your shares quickly. Remember that immediately after 9/11 the stock market was closed for four days. Another major attack could result in a market closure for weeks, and soaring gold prices in the wake of such a new attack could even
result in suspension of trading in gold shares for an even longer period of time.

4. Gold Mutual Funds & ETF's

If you like the concept of gold mining shares and don't want the trouble of managing your own portfolio, a gold mutual fund may be best.

These are mutual with major or even exclusive investments in a variety of companies that produce gold and other precious metals, such as platinum and silver. Gold mutual funds have the advantage of spreading your risk over a number of different companies — so if one goes down the tubes because of bad management, a mine explosion or whatever, you don't lose your entire investment.

During the past year (2003), gold mutual funds have appreciated more than any other U.S. mutual fund, according to BusinessWeek, over 140%.

Risks of Buying Gold

Like all investments, investing in gold is not risk free. Here are just some of the negatives:

*Gold prices can decline or simply remain stagnant.

*Gold mining companies can go out of business even if gold goes up, as a result of poor management, mining accidents, new regulations, lawsuits and other factors.

*Gold is subject to one other unique risk that doesn't affect most other investments: Gold can be confiscated, and in fact it has been, particularly by authoritarian governments such as those of the former Soviet Union and Communist China… and even the United States. **Gold has been confiscated in the U.S. four times in the past!**

Most recently, in the wake of massive bank failures and a subsequent run on the banks, on April 5, 1933, President Franklin D. Roosevelt issued the following executive order:

"I, as President, do declare that the national emergency still exists; that the continued private hoarding of gold and silver by subjects of the United States poses a grave threat to the peace, equal justice and well-being of the United States; and that appropriate measures must be taken immediately to protect the interests of our people."

"Therefore, pursuant to the above authority, I hereby proclaim that such gold and silver holdings are prohibited, and that all such coin, bullion or other possession of gold and silver be tendered within fourteen (14) days to agents of the Government of the United States for compensation at the official price, in the legal tender of the Government. All safe-deposit boxes in banks or financial institutions have been sealed pending action in the due course of law."

Although many citizens resisted, thousands lined up in front of Federal Reserve banks to "return" their gold to the Government.

Lessons From Roosevelt's Gold Confiscation

There are important lessons you can learn from Roosevelt's confiscation of gold.

Lesson 1: Many forms of gold were exempt from confiscation.

Roosevelt confiscated only gold *bullion* bars of gold and bullion coins. Numismatic coins were exempt, as were gold jewelry and semi-numismatic coins (those with a premium of 15%+ over the price of gold). These three forms of gold also were exempt from previous gold confiscations in the U.S., during the Revolutionary War, and Civil War. *They are the only forms of gold that are relatively safe to store in your safe deposit box.*

Also exempt from Roosevelt's gold confiscation were gold mines, gold mining stocks, gold nuggets and dust, gold art objects, and gold held by U.S. citizens outside America.

Lesson 2: Gold soared.

Despite Roosevelt's gold confiscation, gold bullion and stocks soared during the 1930s. Bullion went up 70%. "Homestake Mining" shares increased nearly 700%.

Lesson 3: Don't leave a paper trail of your purchases.

Under Roosevelt, known owners of large quantities of gold were severely harassed and threatened with imprisonment if they didn't turn their gold in. The names of some were even published in newspapers — with disastrous consequences for their businesses and careers.

But the government cannot seize what it does not know about.

There is no required registry for gold purchases, and no need for you to reveal what is not required of you. You also can purchase gold overseas and keep it there in a bank vault or foreign safe deposit box.

The IRS and Offshore Gold Ownership

There is currently no IRS reporting requirement if you own physical gold, silver and other precious metals *so long as it is not held in a financial account* such as a foreign savings or checking account.

The IRS requires U.S. citizens to report all foreign bank accounts.

However, there is no reporting requirement for gold, silver, cash, etc., held in foreign *safe deposit* boxes. The easiest way for most Americans to do this is to set up a safe deposit box in Canada, London or Switzerland.

It is important to note, that if you sell your gold, the IRS says you must report your profit or loss on your voluntarily filed Federal income tax form.

Free Report #2

Trader's Taxes 101…And Beyond; "GreenTrader" Cutting-Edge Content on Forex Taxation:

Provided by Robert A. Green & Company CPA's, LLC

Taxation of forex is confusing and uncertain in the tax code, and that makes tax filings difficult for forex traders. The tax-problem is that some types of forex are treated as IRC 1256 contracts with lower 60/40 tax treatment and other types of forex are treated as IRC 988 foreign currency transactions with ordinary gain or loss treatment. Plus IRC 1256 and IRC 988 are dueling and conflicting tax code sections.

Traders prefer the best of all tax-worlds with ordinary tax treatment for losses, so they are exempt from capital loss limitations. And capital gains (60/40) tax-treatment for gains, so they save up to 12% in tax rates (23% versus 35% at current tax rates). Traders should learn the complex rules for forex taxation before they start trading forex so they can make the necessary elections in-advance to ensure the best overall tax treatment. Can forex traders have their (tax) cake and eat it too?

Here is how the different types of forex are taxed:

Currency futures and options listed on U.S. commodities and futures exchanges are by default treated as 1256 contracts. There is no confusion in the tax code about it and traders or investors get lower 60/40 tax-treatment by default.

But for these U.S. listed forex futures and options, few traders know they may also elect out of IRC 1256 for IRC 988 (foreign currency transaction) ordinary gain or loss treatment. But this is not a big problem in the real world since very few individual traders would want to exchange lower 60/40 tax-treatment for higher ordinary gain tax-treatment? This election is very strict and it must be made on January 1 or the start of trading later in the year, and once made can only be revoked with IRS consent.

You can't cherry pick the election after-the-fact, when you know you have losses. This election is mostly used by corporations and hedgers to avoid capital loss treatment. Don't panic about forex futures losses, IRC 1256 losses may be carried back 3 tax years; but only applied against IRC 1256 gains in those years.

Currency futures and options listed on foreign (not U.S.) exchanges are treated differently by default, but possibly in the same manner after doing some leg work. IRC 1256 contracts include not only contracts listed on U.S. exchanges but certain non-exchange traded contracts also. Two things can help you get foreign currency futures treated as IRC 1256 contracts.

First, we have argued recently that foreign futures are similar to U.S. futures and should be afforded IRC 1256 treatment. Otherwise, the U.S. may be in contravention of tax treaties with many other countries.

Second, in our below internal company tax memorandum on spot forex taxation, we argue that a trader or investor may elect out of IRC 988 for IRC 1256 on foreign currency futures listed on foreign exchanges. Therefore, we believe that like spot forex discussed below, you may claim IRC 1256 treatment on for foreign currency futures listed on foreign exchanges, providing you also timely elect out of IRC 988.

Over-the-counter currency options are a huge marketplace. They are not futures or options contracts listed on U.S. or foreign exchanges; nor are they interbank-traded spot or forward currency contracts. OTC currency options are a breed apart and traded often by sophisticated traders. Even though the IRS never cleared up dueling and conflicting older tax law code sections IRC 1256 and IRC 988 in connection with spot forex taxation, the IRS did make the tax rules clear for OTC forex options in their 2003 tax notice (2003-81). In the notice, the IRS clearly states that OTC forex options are IRC 1256 contracts, but if you want 60/40 treatment, you still have to elect it.

Notice a trend developing here. IRC 1256 recognizes some foreign currency contracts as being 1256, while dueling IRC 988 also recognizes those same contracts as being IRC 988. Which tax code section wins and applies?

It’s reasonable to conclude that the trend shows you can claim 1256 treatment, but you should also elect out of IRC 988. Join the 60/40 lower tax club, but also get permission first to leave the higher-taxing IRC 988 club.

Interbank forex is the most confusing subject tax-wise. Read the below more in-depth articles and memorandum on the subject and next consult with a forex tax expert.

Consider obtaining a tax opinion from GreenTraderLaw, LLC about how you report spot forex on your tax return. This may help you find the best tax outcome and also protect you from IRS penalties, if they disagree later on.

Here's the skinny on IRC 988 foreign currency transactions. They are ordinary gain or losses reported in summary form on line 21 of Form 1040. Conversely, IRC 1256 foreign currency futures are reported on Form 6781; where they are split 60/40 before being moved over to Schedule D (Capital Gain or Losses).

IRC 988 interbank forex includes spot forex, forward forex and other types of forex contracts mentioned in the articles below. Spot forex differs from forward forex contracts in that spot settles in cash in no more than 2 days, and forward contracts settle in more than 2 days.

IRC 988 clearly states that a trader or investor (holding a capital asset versus a hedger or regular business) may elect out of IRC 988 for the more tax-beneficial IRC 1256 on forex forward contracts and foreign forex futures.

IRC 988(a)(1)(B) requires that if you want 60/40 treatment for a forex future (meaning foreign exchange listed), options or forward, you have to elect it (which we recommend using the global good till cancelled type of election).

Here is where the big tax uncertainty comes into play. Notice that IRC 988 does not specifically mention that you may elect out of 988 on spot forex. This glaring omission unfortunately leads many tax professionals to shortsightedly concur that spot forex may only be treated with ordinary gain or loss treatment.

We argue that you can dig deeper to find a way to treat spot forex as IRC 1256, as long as you play it safe and also elect out of IRC 988 on spot forex too.

Here is how it works and how you can do it.

Although it is not widely known by the forex trading marketplace, IRC 1256 recognizes many types of spot forex contract currencies as 1256 contracts. Read the below article and memo from GreenTraderLaw attorneys for the specifics here.

Again, the problem is that IRC 988 also specifically recognizes spot forex contracts as IRC 988 transactions. Again, these two tax code sections conflict and cause uncertainty and risk for return positions on spot forex.

Does IRC 988 trump 1256 or does IRC 1256 trump 988 or must they co-exit? The prudent answer seems to be they must co-exist.

If 1256 trumped 988 on spot forex, then spot forex would always be 1256 and you could not even elect out of 1256 for 988 as that is allowed for U.S. exchange listed currency futures and options only. So you would be stuck with 60/40 treatment, which is not good if you have large spot forex trading losses, as you would prefer ordinary loss treatment with IRC 988. Be careful what you wish for.

So it's a good thing that our firm and consensus professionals believe that spot forex is IRC 988 by default (sort of trumping 1256), so you start with ordinary gain or loss treatment. We explain why we believe that spot forex is sufficiently similar to forward forex contracts so you can also elect out of 988 on spot forex too.

It seems like our logic on spot forex pays good dividends. You can argue that spot forex is 1256 as long as you elect out of 988 first. Have your cake and eat it too.

Again, tax law for forex is very confusing and complex and the only thing that is certain is that there are major conflicts in the tax code with IRC 1256 and IRC 988. GreenTraderLaw is attempting to work with the IRS to codify overdue guidance to clear up the confusion. We need support from sponsors and traders. Please ask your forex brokers to sponsor the **Green Trader Alliance for Traders** to help. Please join the alliance as a member too.

A note of caution. You can have your cake and eat it too with ordinary loss treatment and 60/40 gain treatment by using internal elections wisely. But don't fool around with making these elections. If you wind up with 60/40 treatment on gains and ordinary loss treatment on losses from year-to-year, that will appear to be "cherry picking" after-the-fact, even though the elections must be made in advance of trading.

We expect IRS clarification, but possibly also a requirement for external elections like with IRC 475 mark-to-market accounting for business traders.

If you have any questions, e-mail us at info@greencompany.com

For much more in-depth information about forex taxation, we recommend that you purchase **The Tax Guide for Traders** by Robert A. Green.

When it comes to Trading in Currencies, Special Tax Rules Apply:

More forex trading taxation details by Robert A. Green, CPA

Currency traders face complexities and nuances come tax time. Currency futures are treated like other types of futures; your accounting is a snap and you enjoy lower 60/40 blended tax rates. However, cash forex can be an accounting nightmare and you face higher ordinary tax rates, unless you "elect out" of IRC 988 for 60/40 treatment.

When it comes to trading in currencies, special tax rules apply.

There are two distinct types of currency trading, and each has profound differences in tax and accounting rules.

First, you can trade in currency futures on regulated commodities exchanges. These futures are treated the same as other commodities and futures – as IRC section 1256 contracts.

Or, you can trade "cash forex" in the interbank market (not on regulated futures exchanges), subjecting you to an entire set of special rules concerning IRC section 988 contracts.

Before you file your tax return, or even better yet before you start trading, find out what you are trading – is it a Section 1256 contract or a Section 988 contract?

Many currency traders transact in both: contracts on regulated commodities exchanges ("regulated futures contracts" [RFC] on currencies) and in the non-regulated "interbank" market (a collection of banks giving third party prices on foreign current contracts [FCC] and other forward contracts) – commonly known as "cash forex".

Learn below how currency traders are taxed similar to commodities traders, except that interbank currency traders must "elect out" of IRC section 988 (the ordinary gain or loss rules for special currency transactions) if they want the tax-beneficial 60/40 capital gains rate treatment of IRC section 1256.

Currency trading is like commodity trading in general

Most currency traders seek to be treated like commodities and futures traders in that their trading gains and losses are treated as section 1256 contracts.

Both business traders and investors report section 1256 contracts as capital gains and losses on Form 6781 (Gains and Losses from Section 1256 Contracts and Straddles). This allows them to split the gains and losses 60/40 on Schedule D: 60-percent long-term, 40-percent short-term.

This 60/40 split gives commodities traders and investors an advantage over securities traders. 60 percent is taxed at the lower long-term capital gains rates (up to 15 percent) and 40 percent is taxed at the higher short-term capital gains rates (or “ordinary rate” up to 35 percent).

The current maximum blended 60/40 rate is 23 percent, which is 12 percent less than the maximum rate of 35 percent on short-term securities (or cash forex trading if you don’t elect out of IRC 988, see below).

Certainly, a 12-percent tax rate reduction is worthwhile to pursue for all currency traders.

Cash forex is subject to IRC section 988 (treatment of certain foreign currency transactions)

The principal intention of IRC section 988 is taxation on foreign currency transactions in a taxpayer’s normal course of transacting global business.

For example, if a manufacturer purchases materials in a foreign country in a foreign currency, the fluctuation in exchange rates should be accounted for pursuant to IRC section 988. IRC section 988 provides these fluctuations in exchange rate should be treated as ordinary income or loss and reported as interest income or interest expense. IRC section 988 considers exchange rate risk in the normal course of business to be like interest.

IRC section 988 does not affect currency futures (RFCs):

Currency traders who trade currency futures (regulated futures contracts – RFCs) are not affected by IRC section 988 because they are not trading in actual currencies.

RFCs based on currencies are just like any other RFC on an organized exchange.

Additionally, since RFCs are marked-to-market at the close of each day (and year) in accordance with IRC section 1256, the economic and taxable gain or loss are the same. IRC section 988 specifically mentions that RFCs and other mark-to-market instruments are exempt transactions.

IRC section 988 does affect Foreign Currency Contracts

When a currency trader uses the interbank market to transact in Foreign Currency Contracts and other Forward Contracts, they are exposed to foreign exchange rate fluctuations.

However, currency traders look upon their currency positions as “capital assets” in the normal course of their trading activity (business or investment).

What this means is that a currency trader may elect out of ordinary gain or loss treatment in IRC section 988, thereby falling back to the default section 1256 contract treatment; which is 60/40 capital gains and losses. Most currency traders will want to make this election for the tax-beneficial treatment of section 1256 (lower tax rates on gains).

Foreign exchange traded currency futures

Many traders ask this question: ‘Are currency futures trades done on foreign exchanges also taxed at 60/40 for U.S. citizens, or does 60/40 only apply to futures listed on US exchanges?’

There is a reasonable basis in fact and law to conclude that futures traded on certain foreign contract markets with either a CFTC Rule 30.10 exemption or No Action Letter are entitled to classification as Section 1256 contracts (e.g., commodities) with the result that “60/40” tax treatment is appropriate.

To “elect out” of IRC section 988 or not, that’s the question

If you have cash forex trading gains, you will prefer to elect out of IRC section 988 to benefit from up to 12-percent lower tax rates on Section 1256 contracts.

Conversely, if you have cash forex trading losses, you may prefer ordinary loss treatment over Section 1256 capital loss treatment. As a result, you may not want to elect out of IRC section 988.

Note that IRC section 1256 losses may be carried back up to three tax years, but only against IRC section 1256 gains in the prior three tax years. Ordinary losses may offset any type of income. But, technically, it’s not a simple choice like this at the end of the year.

The rules require that you elect out of IRC section 988 on a “contemporaneous basis.” This means that hindsight is not allowed and you must make your decision in advance of the trades, before you know if you will have gains or losses.

Can you bend the rules?

The election out of IRC section 988 should be filed “internally,” which means you place it in your own books and records as opposed to filing it with the IRS.

Many traders do bend the rules and, after year-end, if they have cash forex gains, they claim they elected out of IRC 988 to use the beneficial IRC 1256 treatment.

In fact, our firm has noticed hundreds of traders who don't even know the rules and simply report their cash forex gains on Form 6781. Others report them on Form 1040 line 21 as ordinary income and just pay higher taxes, without knowing the difference.

We expect the IRS to catch up with all cash forex traders soon, after the explosion of cash forex in the online trading market.

Don't bend the rules and get into trouble; learn about the rules up front and follow them for success.

Currencies futures vs. cash forex – what's the accounting difference?

Currency futures traders have it easy on two accounts. Not only do they get the lower-tax 60/40 treatment on trading gains, but they also have it much easier come tax time.

Your brokerage firm sends you (and the IRS) a simple Form 1099 soon after year-end, reporting one number for your Section 1256 trading gain or loss for the tax year. Line 9 on that Form 1099 is "aggregate profit or loss."

The "mark-to-market accounting" rules in Section 1256 make accounting a snap. Your brokerage firm simply adjusts your realized gains and losses with beginning and end of year unrealized gains and losses for a combined realized and unrealized gain or loss amount.

On your tax return, report "aggregate profit or loss" on Form 6781 (the 60/40 form). Those 60/40 amounts are then transferred to Schedule D (capital gains and losses) – unless you carry back a Form 6781 loss to prior years.

Wow, if only all traders had it so easy on accounting!

Section 1256 futures traders don't need any accounting solutions or programs unless they want to check their brokerage firms, which may be a prudent idea.

Securities and cash forex traders face accounting challenges come tax time.

Form 1099s report proceeds on securities transactions, and some have "supplemental information" for total sales and purchases of securities options, mutual fund transactions and purchases of securities. Form 1099s do not report cash forex transactions or single-stock futures.

Traders who fill out Form 1099s are on their own. Some brokerage firms offer online reporting, but many have unmatched trades and some say you can not rely on these reports for your tax returns.

So, if you trade in anything other than Section 1256 contracts, you will probably need your own accounting solutions or software programs.

Most good accounting programs are geared towards securities traders. For examples, this writer's company offers **GTT TradeLog**, a leading program for active traders to download all transactions and calculate trading gains and losses, with wash sales or IRC 475 mark-to-market adjustments.

Here is a good accounting solution for cash forex

Money managers report cash forex trading gains and losses using a "Performance Record Approach."

These results are sufficient for tax authorities and reporting rates of return to investors. Use the same formula in a worksheet for your tax return. Here's the formula to use on a worksheet template.

Ending net assets (at market value) less beginning net assets (at market value), less additions of cash, plus withdrawals of cash, equals net performance. Subtract non-trading items such as interest income, add interest expense and other expenses, and you have net trading gains or losses on cash forex.

If you don't elect out of IRC 988, you report your ordinary gain or loss from cash forex as "other income" on Form 1040 (line 21).

If you elect out of IRC 988, add this amount to Form 6781 as "cash forex elected out of IRC 988."

Your monthly statements may get you lost in the woods. If you try to figure out your cash forex gains and losses from your monthly brokerage statements, you may get very confused and lost.

We have clients that have different statements for each type of currency (e.g., U.S. dollars, Japanese yen, Swiss francs and Euros) and it can become a nightmare scenario to try and figure it all out. The performance record approach is a salvation and it's accepted by the IRS.

My broker reported my cash forex along with my IRC 1256 contracts. Is that OK?

A few brokers lump in cash forex in with IRC Section 1256 contracts on 1099 line 9 "aggregate profit or loss."

This is technically incorrect by law, but it may save you taxes and an accounting headache.

Technically, cash forex are IRC 988 transactions and should be segregated from IRC 1256 contracts.

Perhaps these brokers can argue that when you opened your cash forex account, you “contemporaneously” elected out of IRC 988 for IRC 1256 treatment, and that you qualify for such as a trader rather than a manufacturer-type business.

You should consult with a trader tax expert if this applies to you.

Also, consider what happens if you have a large cash forex loss and you prefer ordinary loss treatment instead of Section 1256 treatment – so you don’t get stuck with the capital loss limitation of $3,000.

You face difficulty in overriding a broker’s 1099 treatment for 1256 contracts. Consult with a trader tax expert who may be able to help.

Cash forex is the “wild west” of trading and IRS reporting:

Cash forex is not registered with the CFTC and it has been called the ‘wild west’ of trading.

Cash forex is also the wild west when it comes to taxes and reporting trading gains and losses.

There should be no 1099 reporting for cash forex, so you are your own sheriff when it comes to ‘rounding up’ the gain and loss numbers and paying your taxes (with the nuances of IRC 988).

A person visited our booth at the Online Trading Expo in NYC and asked if cash forex was taxable at all? She heard that many cash forex traders claimed they don’t pay any taxes on their gains. We told her the IRS sheriff will catch up with them soon and throw the book at them for tax avoidance.

Remember, Form 1099 rules are minimum reporting guidelines set forth by the IRS. New products are being created all the time and it takes years for the IRS to set the guidelines for how each product is reported on Form 1099s, if at all. Brokerage firms tussle with the IRS each year on what they must report; as it causes great stress and cost on their accounting systems.

Many new and smaller cash forex brokerage firms have ramped up quickly to tap into the explosion of interest in cash forex – especially after the securities markets went into a tailspin a few years ago.

Many of these firms are not strong on reporting, systems or tax compliance, so you may be on your own when tax time comes.

Before you open a cash forex account, ask your brokerage firm what kind of reporting and support they offer you.

Bottom line:

Currency trading is a hot commodity in the market place, but not all currency contracts are taxed like commodities. Cash forex is subject to IRC section 988 rules, and if you're a trader you can elect out of IRC 988. This will allow your gains to be taxed like commodities – with beneficial 60/40 treatment. Before you start trading cash forex, find out if your brokerage firm will help you with trade accounting. If not, you may have a huge accounting headache on your hands come tax time. When it comes to currency trading, it's wise to learn all the tax rules and consult with a trader tax expert.

If you have any questions, e-mail us at info@greencompany.com

For much more in-depth information about forex taxation, we recommend that you purchase **The Tax Guide for Traders** by Robert A. Green.

Free Report #3

How To Avoid The Forex Trading Industry's "Dirty Little Secret" That's Stealing Money From You Every Time You Trade!!

Traders have long suspected that their success has been tied more to the random good will of the sponsoring broker (market maker) than to the free market price action. Their suspicions are justified by the fact that trading has been restricted to a contrived and artificial market created and controlled by the individual broker, or "market maker", which terminology can be taken quite literally. As you will see by the following comparison chart, spot trading with a single market maker may soon become a thing of the past, or in the least, and with an increased trader awareness, market makers will become more "transparent" and honest in their client dealings.

With the introduction of non-dealing desk trading, you can now trade currencies the same way brokers trade. Instead of trading against a single broker, you can trade off-exchange against multiple banks, institutional investors, and FCM's through disinterested brokers who derive their income by pre-defined and nominal transaction fees or "pips" (another word for commissions), a cost that is generally much less than what you pay traditional "retail" market makers (brokers), who exercise total control over accounts, currency pricing, and ultimately your levels of success or failure. It's an industry fact that at least 60% of client's funds are lost in retail trading accounts because of market maker control of funds and lack of transparency. It is also conjectured to be a contributing factor in the average turnover of new traders to forex being only 90 days.

The offer of "commission free trading" is not only a myth but a deliberate misrepresentation of trading costs. When you trade with a "dealing desk" broker platform who offers commission free trading, you not only pay commissions in the form of fixed spreads, you also pay some undisclosed fees as well, ie; "stop hunting" (which creates losing trades for you that otherwise would have been profitable, and results in losses equal to the size of a trader's stop loss, plus the gain that would have been realized had the broker not "taken you out" of your trades - "opportunity costs"), "programmed slippage" (dealing desk brokers have the ability to induce one or two pips of slippage at will), and re-quotes which enable the broker to impute additional hidden and undisclosed trading costs. There is no transparency! Most "dealing desks" and forex broker platforms answer only to themselves, have their own account platforms (or are "IB's" to a similar broker dealing desk set-up), answer to no one in this un-regulated industry, and are NOT allowing you to be a part of the true "Interbank" trading system operated by EBS and Reuters, and with their member banks and institutions.

The NFA (National Futures Association) is a self-regulating entity, and they understand the "market maker" relationship. The CFTC regulates physical exchanges and electronic exchanges, and exercises oversight for forex activities, with authority over the NFA.

Trading <u>WITH</u> a Dealing Desk Broker	**Trading the Forex <u>THROUGH</u> a Non-Dealing Desk**
The dealing desk broker controls every facet of the trading process.	The non-dealing desk broker, functioning as a facilitator, has no control over pricing or your trades.

You trade in an artificial, off-exchange market created and controlled by the broker for the benefit of the broker.	The broker does not create or control the market. Pricing is established by the participating banks, FCMs, and (in the case of an ECN broker) fellow spot traders.
Encourages high risk trading (gambling).	Encourages low risk, conservative trading.
Trading costs are not limited to all or a portion of the fixed spreads the dealing desk broker quotes. Dealing desk brokers not only trade on their own behalf, but they trade against their clients, and this is where the bulk of their income is made (approximately 60%).	Costs are fully disclosed and limited to a nominal transaction fee of from 0 to 2 pips per round turn. There are no hidden fees and, most importantly, you avoid the hidden costs associated with dealers who trade against you, e.g., stop hunting, requotes, and programmed slippage.
As a price taker, you are only allowed to execute trades against the broker, the “market maker”, and solely on the broker’s terms.	Depending on the trading platform used (STP, ECN or STP/ECN), you trade against multiple banks and/or other spot traders.
The pricing you see is a function of the broker’s self-interest, not the entire foreign currency market.	The pricing you see is a direct reflection of the interbank forex market, not a price that is “created” by the “market maker” to benefit the “market maker” broker.
Your positions, particularly stop losses, are known and can be traded against at will (spiked), when it serves the financial interests of the broker to do so.	Promises trading anonymity. Your positions (stop losses) are not forwarded to or otherwise displayed to trading counterparties, so they cannot use your positions to trade against you.

You trade against fixed spreads which are frequently much greater than those offered on the actual interbank forex exchange.	Displays actual spreads. This enables you to trade between spreads that are more fair and reasonable, which saves you money every time you trade.
Artificially manipulated pricing. What you see is what the broker wishes to post and offer to you at any given time.	You see and trade on live pricing derived directly from participating banks, FCMs, and/or individual spot traders like yourself.
Your orders are executed on a discretionary basis. Dealing desk brokers frequently issue reorders when order fulfillment does not coincide with their own financial self-interest.	You get prompt and accurate order execution. Non-dealing desk brokers have nothing to gain by delaying or interfering with the execution of your orders.
You are trading with a broker who has an inherent conflict of interest, by offering you in-house, retail, off-exchange “trading opportunities”, who then trades against you, and takes advantage of manipulated “trading opportunities” to make money at your expense.	As an “interbank” trader, you don’t have this conflict of interest, because the non-dealing desk broker has no control over any of your trades, once they have been executed.
Trading practices are not transparent. What you see isn’t necessarily what you get.	Trading practices are totally transparent. What you see is what you get.

You can see that the advent of non-dealing desk interbank brokers is changing the industry for spot forex traders. Now you can trade with virtually the same advantages “retail” brokers have been enjoying, by trading off-exchange and with a true interbank broker trading platform, a platform that is a more accurate representation of free market prices once only reserved for and offered to banks, CTA’s, Institutions, Hedge funds, and larger professional trading floors. There are few non-dealing desk broker platforms at present. We have listed some good brokers below, with both “retail” and “interbank” brokers being listed. It is wise to try several “demos” to see who you like best, as personal preferences differ among individual traders.

Free Report #4

Top 5 Forex Broker Trading Platforms And Why:

Most forex brokers offer free charts, indicators, and trading “demo” practice accounts. Some offer free basic forex instructional information. Broker trading platforms based in foreign countries *may or may not* offer you financial privacy and sovereignty, and *may or may not* report capital gains to any taxing authorities – privacy and sovereignty are rapidly vanishing worldwide. Please do your due diligence and seek professional tax advice.

I am not an “introducing broker - IB” for any of these companies, and I do not receive any compensation from them. **Most “retail” trading platforms in forex are “market makers”. This means they “make” a market for your trade(s), by placing counter-trades against your position(s), as opposed to true “Inter-bank” or “STP-Straight Through Processing”. Some trade more aggressively against your position(s) than others. Please remember this fact, and if you feel that your potentially winning trades are turning into losses more frequently than they should, then find another broker!**

You should be treated fairly by the following trading platforms. **FXCM**, **InterbankFx**, and **Oanda** offer you STP *“Straight Through Processing”* with NO DEALING DESK. Over the years, I’ve deleted the bad brokers. If you are not treated honestly and fairly by a broker platform on this list, please let me know, and I will take them off this list. These trading platforms offer you the continuing education and technical analysis tools you will need, i.e. Moving Averages, RSI, MACD, CCI, Fibonacci, Pivot Points, Stochastics, Parabolic SARS, and more.

http://www.fxcm.com Inter-Bank Forex with NO DEALING DESK. A strong and well capitalized forex broker with a solid reputation. Trade directly from the charts. Trade from your mobile device. Their new Forex Course is now free (July of 2010). It used to cost $500 several years ago, and was recently just $19.95. The FXCM forex course main premise is *“range trading,”* or *“fishing for tops and bottoms,” within the “ranges”* of support and resistance and Fibonacci levels. They also offer www.dailyfx.com for free articles and analysis. Their Marketscope 2.0 trading platform is robust, and offers you all of the trading tools you will need to succeed in forex trading. You can also start trading forex for as little as $50 with FXCM's http://www.forexmicrolot.com web site. More FXCM details follow in your ***Free Report #13*** below. (23% profitable accounts.)

http://www.interbankfx.com Inter-Bank Forex with NO DEALING DESK. Low "pip" spreads. Good software with free Autochartist "pattern recognition" and other add-ons as well. You can trade from the charts, and you can trade from your mobile device. Their MetaTrader 4 and newer version 5, both offer you "expert advisors" and custom indicators. Raghee Horner offers you forex trading advice. More IBFX details follow in your ***Free Report #13*** below. (28% are profitable accounts.)

http://www.oanda.com Inter-Bank Forex with NO DEALING DESK. Truly "low pip spreads", "carry trade" interest on rollovers with a calculator. Since 1995. Trade from the charts and from your mobile device. FxGame is a practice version of their FxTrade trading platform. Oanda boasts **48% of their accounts are profitable**, which is #1!

http://www.gftforex.com World Inter-Bank broker based in London and offered in the U.S. as well. Trade from your GFT charts and on your mobile device. DealBook® 360 is a robust forex trading platform. Autochartist "pattern recognition" is free with a $2500 account balance. GFT offers you artificial intelligence ***"Foresight AI™"*** predictive software. $100-$500 per month, and based upon the early "Bradley" model of predictive software for stocks. The "Bradley" model was developed further by Larry Pesavento for Ensign software. Then GFT adapted the model to forex, and their *"AI chart line" establishes trends and potential highs and lows to confirm your entries and exits*. GFT is international, but is an NFA member, and is CFTC registered. See also www.fxstreet.com. GFT uses www.fx360.com for one of its news and commentary sources. More GFT details follow in your ***Free Report #13*** below. (33% profitable accts.)

http://www.saxobank.com Saxo Bank of London. Forex "Options" and "Forwards" trading is also available. And www.tradingfloor.com for forex articles.

A complete and updated list of Forex Trading companies can be found in annual issues of Stocks & Commodities magazine.

You may also be interested in these two full service and award winning broker platforms:

http://www.TradeStation.com Stocks, futures, options, and forex trading.

http://www.InteractiveBrokers.com Stocks, futures, options, bonds, and forex trading.

A complete and updated list of online brokers can also be found in annual issues of Active Trader magazine, Futures magazine, and Stocks & Commodities magazine:
http://www.activetradermag.com, http://www.futuresmag.com, http://www.traders.com

Free Report #5

Top 7 Currencies To Trade Against The U.S. Dollar For Maximum Profits In Good Times And Bad, & How You Can Win, Even If The Dollar Loses!

These are considered the “Major” currency pairs, and they offer you high liquidity and less risk when trading them. They also typically offer smaller pip spreads with most brokers, which lessens your forex trading costs.

EUR/USD:

In this currency pair, the Euro is the “base currency”, and thus, the “basis” for the buy/sell. If you believe that the U.S. economy will continue to weaken and this will hurt the U.S. Dollar, you would execute a “buy” EUR/USD order. By doing so, you have bought Euros, in the expectation they will appreciate versus the U.S. Dollar. If you believe that the U.S. economy is strong, and the euro will weaken against the U.S. Dollar, you would execute a “sell” EUR/USD order. By doing so, you have sold Euros in the expectation they will depreciate versus the U.S. Dollar. The EUR/USD is the most liquid and most heavily traded currency pair.

GBP/USD:

In this currency pair, the Great British Pound is the “base currency”, and thus, the “basis” for the buy/sell. If you think the British economy will continue to be the leading economy among the G7 nations in terms of growth, thus buying the pound, you would execute a “buy” GBP/USD order. By doing so, you have bought Pounds in the expectation they will appreciate versus the U.S. Dollar. If you believe the British are going to adopt the Euro, and this will weaken Pounds, as they devalue their currency in anticipation of the merger, you would execute a “sell” GBP/USD order. By doing so, you have sold Pounds in the expectation they will depreciate against the U.S. Dollar. The GBP is strongly correlated to the Euro, but *the GBP is generally more volatile, and offers you greater “pip” ranges for greater trading profits*.

USD/JPY:

In this currency pair, the U.S. Dollar is the “base currency”, and thus, the “basis” for the buy/sell. If you think the Japanese government is going to weaken the Yen in order to help its export industry, you would execute a “buy” USD/JPY order. By doing so, you have bought U.S. Dollars in the expectation they will appreciate versus the Japanese Yen. If you believe that Japanese investors are pulling money out of U.S. financial markets, and repatriating funds back to Japan, and this will hurt the U.S. Dollar, you would execute a “sell” USD/JPY order. By doing so, you have sold U.S. Dollars in the expectation they will depreciate against the Japanese Yen. Japan is currently emerging from a 15 year recession. The Bank of Japan has begun to raise interest rates slightly. The USD/JPY has been a “carry trade” favorite for many years, paying you favorable interest on your carry trade “rollovers” in your trading account. Carry trades are a favorite of Hedge Funds. *A good trade here is when China continues to de-peg and strengthen the Yuan (the “Anti-Dollar”).* The Yen appreciated 2.1% when the Chinese government first allowed the Yuan to float freely in 2005, and again in 2010, tied to a basket of Asian currencies. Most Asian economies and currencies are benefiting from China’s tremendous growth. This would include Taiwan, Singapore (the Singapore Dollar is another “Anti-U.S. Dollar”), and Hong Kong. Currently, there is no spot forex currency pair for the Yuan, but, you can trade the CNY in the futures market.

USD/CHF:

In this currency pair, the U.S. Dollar is the “base currency” and thus, the “basis” for the buy/sell. If you think the Swiss Franc is overvalued, you would execute a “buy” USD/CHF order. By doing so, you have bought U.S. Dollars in the expectation they will appreciate versus the Swiss Franc. If you believe, that due to instability in the Middle East and in U.S. financial markets, the U.S. Dollar will continue to weaken, you would execute a “sell” USD/CHF order. By doing so, you have sold U.S. Dollars in the expectation they will depreciate against the Swiss Franc. The Swiss Franc, or “Swissie”, attracts funds during times of crisis and uncertainty.

USD/CAD:

In this currency pair, the U.S. Dollar is the “base currency” and thus, the “basis” for the buy/sell. If you think the CAD is overvalued, you would execute a “buy” USD/CAD order. By doing so, you have bought U.S. Dollars in the expectation they will appreciate versus the CAD. If you believe, that due to deteriorating fundamentals in U.S. financial markets, the U.S. Dollar will continue to weaken, you would execute a “sell” USD/CAD order. By doing so, you have sold U.S. Dollars in the expectation they will depreciate against the Canadian Dollar. The Canadian Dollar is a “resource” and “commodity” currency, i.e. oil, diamonds, metals, and is somewhat correlated to the CRB Index (commodities).

AUD/USD:

In this currency pair, the AUD is the “base currency” and thus, the “basis” for the buy/sell. If you think the U.S. Dollar is overvalued, you would execute a “buy” AUD/USD order. By doing so, you have bought Australian Dollars in the expectation they will appreciate versus the USD. If you believe, that due to strengthening fundamentals in U.S. financial markets, the U.S. Dollar will continue to strengthen, you would execute a “sell” AUD/USD order. By doing so, you have sold Australian Dollars in the expectation they will depreciate against the U.S. Dollar. The Australian Dollar is a “commodity” currency, i.e. metals, ores, and exports heavily to China. Watch this currency for favorable carry trades, as the AUD generally pays a higher interest rate to attract funds.

NZD/USD:

In this currency pair, the NZD is the “base currency” and thus, the “basis” for the buy/sell. If you think the U.S. Dollar is overvalued, you would execute a “buy” NZD/USD order. By doing so, you have bought New Zealand Dollars in the expectation they will appreciate versus the USD. If you believe, that due to strengthening fundamentals in U.S. financial markets, the U.S. Dollar will continue to strengthen, you would execute a “sell” NZD/USD order. By doing so, you have sold New Zealand Dollars in the expectation they will depreciate against the U.S. Dollar. The New Zealand Dollar is also a “commodity” currency, and is closely correlated to the Australian Dollar. Watch this currency for favorable carry trades, as the NZD generally pays a higher interest rate to attract funds.

<u>Free Report #6</u>

How To Play Asian Growth Currencies & China's Yuan Revaluation:

This Report was originally written in 2005 and left intact, with a few edits and updates, as it still applies today in July of 2010. "The more things change, the more they remain the same."

You've probably heard about China's currency, the "Yuan", in recent months. It's mostly been a political issue. The Yuan's value used to be tied to the U.S. dollar at a fixed ratio that always kept it cheap. This guaranteed that China's manufacturing capabilities would remain cheaper than here in the U.S., thereby giving the nation a competitive economic edge—one that is driving the miraculous growth there.

In the summer of 2005, the Chinese government decided to let the Yuan float a little bit in value, a move that was received very favorably in the U.S. *But, in 2008, the Yuan was re-pegged to the U.S. Dollar*, and up to May of 2010, the Chinese government had resisted further "revaluations", and in fact, are buying gold, silver, and many other commodities, while divesting themselves of the U.S. Dollar and U.S. government bonds.

In June of 2010, the Chinese government, once again, de-pegged the Yuan from the U.S. Dollar (becoming the "Anti-Dollar" - the Singapore Dollar is also an "Anti-Dollar"). China's economy is also being allowed to slow down, and it is currently losing a little momentum, but still maintains a phenomenal 10%+ GDP growth rate.

The dollar/yuan pair shifted slightly out of its straitjacket after China announced in mid-June it planned to let the yuan resume floating in a limited range. During its “managed” float, the Yuan had appreciated 20% in value against the USD from 2005-2008.

The interesting story here is, due to U.S. Dollar and Euro weakness as of late, the Yuan will most likely strengthen, whether the Chinese government likes it or not, in addition to the de-pegging. And, the U.S. government will be paying off its bond debt in cheaper, inflated dollars. By chance or by plan? Your guess is as good as mine.

The Chinese government seeks to further distance itself from the U.S. Dollar long term! What does this mean for you and me as currency traders? **FADE the U.S. Dollar long term, as it weakens against the Yuan and other global currencies, and is eventually replaced as the “Standard” world currency!**

Currency valuations not only play a big role in currencies, but in stock markets as well. For example, during the early 1970s, as Americans bought more Japanese goods, the island nation became America’s largest trade surplus partner. Consequently, demand for Japanese yen grew, and the currency went into a spectacular 20-year bull market. In the 20 years between 1974 and 1995, the Japanese yen appreciated an astounding 350% against the U.S. dollar! When the Yuan was un-pegged and rose 2.1%, the USD/JPY saw a quick 2% fall on the currency pair, or rise in the value of the yen! **So, next time China revalues the Yuan (and as it strengthens), place a “sell order” on the USD/JPY currency pair (when the JPY increases, the USD decreases)! This still holds true in 2010, and you can trade the USD/JPY profitably, whether or not China intervenes to revalue its currency or not, due to dollar weakness.**

To put that into perspective, let’s say you took half of your dollars and converted them into Japanese yen in 1974, and then locked up all the money in a safe for 20 years. When you opened the safe in 1994, the yen you pulled out would have been worth triple what they were when you put them in. The dollar would have been worth the exact same amount. So during that period, anyone holding assets denominated in the yen—including investors in businesses that got paid in yen—saw their profits boosted tremendously by currency windfalls.

Fast-forward now to the new millennium, and now China has replaced Japan as America’s largest trade surplus partner. As a result, demand for the

Chinese Yuan is now surging. The question for as us investors in China's growth is: Will history repeat itself and the Yuan enter a multiyear bull market with triple-digit percentage gains?

I believe the answer is yes, for reasons that we've talked about. Driven by American consumer's huge demand for low-cost goods made in China, the Chinese economy will soar, and the Yuan right along with it. The Yuan immediately appreciated 2.1% the summer of 2005. That may be a small step, but it's a significant one in the inevitable direction of the currency.

Another important step happened recently when China allowed 13 banks, including five foreign banks, to "make a market" in the Yuan. This allows more and more banks to deal in the currency, which will help it appreciate faster, because it will be easier to convert to other currencies and the Yuan will be more tradeable.

As the Yuan grows in value, companies with significant revenue and assets denominated in the Chinese currency will enjoy a tremendous windfall—and that's where it gets exciting for us. I'm not talking about a slight boost here. I believe it could be in the range of 50% to 100% over time. We can make a lot of money by investing in fast-growing companies that get paid in the Yuan, or at least have huge divisions in China, producing revenues in the form of the Yuan. Look to invest in ETF's that specialize in China, Japan, Taiwan, and Singapore, as well as in Australia, a MAJOR exporter to China. Investor's Business Daily is a good resource for tracking top rated ETF's and their rates of return.

If you like higher risk, you can also play the Yuan directly in the futures market by buying the appropriate contracts for the Yuan – USD/CYN.

Summary:

Sell the **USD/JPY** currency pair on the spot forex market when the Yuan revalues and appreciates, and as the dollar also weakens.

You can also trade China, through the iShares FTSE/Xinhua China 25 Index ETF **FXI** fund (iShares currently offers 17 other "Asian Index" funds as well). Note that the FXM Mexican Peso ETF, trades with a direct correlation to the FXI. Both funds could be good **"Chinese Yuan revaluation"** plays (as well as "oil" plays). (There is also The Wisdom Tree Dreyfus Chinese Yuan Fund – CYB – but the price movement of this fund is currently flat, and the prospect of significant returns for you in this etf is small.)

Buy the appropriate futures contracts on the USD/CYN or USD/JPY.

Invest in global ETF’s that play on the importance of the China “resources” and growth phenomenon.

Dollar Weakens And Yuan/Renminbi Revaluation

The dollar hasn’t seen weaker days in quite some time (2005 - 2011). This year has been tough on the American currency and it doesn’t look like there is an end to the current blood-letting in sight. A result of the weak dollar has created a huge trade deficit with the rest of the world. The trade deficit is flying high and the once powerful dollar has sunk lower against many of Europe’s currencies. As of late (2011), the Euro is still struggling, due to the Greece contagion (and spreading throughout Europe).

Exports of goods and services grew to a record $97.5 billion in September, 2005. Exports were helped by the weaker dollar, which makes U.S. goods cheaper to foreign buyers and improved foreign demand. The recent October trade numbers looked a little better, but it wasn’t nearly enough to give the dollar a leg up against other major currencies. America’s politically sensitive trade deficit with China hit a record $15.5 billion as imports from the country also reached a high. U.S. manufacturers claim China’s currency policies give Chinese companies a big competitive advantage. This is all still true in 2010 and in 2012.

The U.S. has been pressing Beijing to let the value of its currency, the Yuan/Renminbi, be set in open markets. Currently (7-2010), the Yuan/Renminbi is “de-pegged” from the U.S. Dollar, as of June 2010), but is still being “managed” by the Chinese government. A free floating Yuan/Renminbi spells major potential profits for you and me! The Yuan/Renminbi would immediately fluctuate up and down in large ranges, attempting to establish its own equilibrium in the open market - and this means that you and I can make piles of money on up and down movements of the USD/CYN “futures” currency pair, as well as the USD/JPY “spot” currency pair, during these price fluctuations.

So who wins and who loses from the weak dollar?

The winners are the global community and U.S. companies that sell American goods overseas. Any American company that produces and exports goods overseas is no doubt doing well since a weak dollar makes their product(s) more affordable for populations abroad. As a trader, you and I win if we make profitable trades in this exciting currency pair - when the Yuan/Renminbi becomes free floating in the markets, assuming you know how to place your trades correctly.

The loser is the American consumer. Our dollar buys fewer goods and services from foreign countries and makes them more expensive. Plus, if we are planning a trip abroad, the trip also costs more. This is a double whammy because since we’re not traveling as much, the economy in foreign nations is also losing valuable tourist dollars. As a trader, if you miss this boat, you lose out on potentially sky-rocketing profits.

So, if the dollar continues to show weakness, 2005-2012 could experience a major monetary challenge. The continued decline of the dollar could force some foreign nations that we rely on to finance the U.S. budget deficit, to be less likely to buy U.S. Treasury securities – namely China.

There is also a worry in some sectors that more expensive exports from Euro-zone countries may hurt foreign businesses that export products to the U.S., thus threatening the economic growth potential in various European countries, China and Japan.

Eventually, stronger European and Asian economies help the U.S. because many American companies depend on those nations to buy their products and services. And if our currency’s value falls too far below some basic measure of its worth, U.S. products will become more attractive, which will likely increase demand for those products, which will increase demand for that country’s currency, which will increase its value. Recently, Treasury Secretary John Snow said the U.S. would like the dollar to strengthen, but believes international currency markets should be left to set its value.

P.S. UPDATE! China revalued the Yuan 7-21-05, and again in June of 2010! Most retail trading platforms have not offered the USD/CNY currency pair in the past, although it IS offered as a “futures” contract. It has been reserved for institutional investors/traders and banks. Now that the Yuan is de-pegged from the U.S. Dollar again, it remains to be seen what retail product(s) will be introduced for retail customers to trade. Just know that it will certainly be introduced at some point, with China in the news continually with the Yuan revaluation and their continued GDP growth. Watch for it! This is when you will want to begin trading the next great "spot" currency pair (the "futures" pair already exists – USD/CNY)! In the meantime, **the USD/JPY is the best "spot" pair to trade** (Yen was up 2.1% on the first day of the CNY revaluation), in my opinion, due to the fact that the Chinese have again tied their currency to a *"basket of Asian currencies."* www.EverBank.com also offers a Pan-Asian CD currency basket, for those of you who wish to play Asian currencies the easy and FDIC insured way. *It also appears that the USD will continue its long term downward spiral for some time, with short term signs of occasional bullishness.*

In The News - Economist: China Loses Faith in Dollar

Wednesday, January 26, 2005 (And it is still true in 2012. In 2009, China unloaded billions in U.S. government bonds.) *The "big-picture trend" is what's important here.*

DAVOS, Switzerland - China has lost faith in the stability of the U.S. dollar, and its first priority is to broaden the exchange rate for its currency from the dollar, to a more flexible basket of currencies, a top Chinese economist said Wednesday at the World Economic Forum. (Also, as of 2012, Russia, and major oil producing countries, want to peg oil to a currency other than the U.S. Dollar.)

At a standing-room only session focusing on the world's fastest-growing economy, Fan Gang, director of the National Economic Research Institute at the China Reform Foundation, said the issue for China isn't whether to devalue the Yuan but "to limit it from the U.S. dollar."

But he stressed that the Chinese government is under no pressure to revalue its currency.

China's exchange rate policies restrict the value of the Yuan to a narrow band around 8.28 Yuan, pegged to $1 (7-2010 is approximately 6.8 Yuan/$1). Critics argue that the Yuan is undervalued, making China's exports cheaper overseas and giving its manufacturers an unfair advantage. Beijing has been under pressure from its trading partners, especially the United States, to relax controls on its currency.

"The U.S. dollar is no longer - in our opinion, is no longer - (seen) as a stable currency, and is devaluating all the time, and that's putting troubles all the time," Fan said, speaking in English.

"So the real issue is how to change the regime from a U.S. dollar pegging ... to a more manageable ... reference ... say Euros, yen, dollars - those kind of more diversified systems," he said.

"If you do this, in the beginning you have some kind of initial shock," Fan said. "You have to deal with some devaluation pressures."

The dollar hit a new low in December against the euro and has been falling against other major currencies on concerns about the ever-growing U.S. trade and budget deficits.

The U.S. currency came under some pressure Wednesday, drifting lower versus most currencies including the Japanese yen and the euro, as dealers mulled the Chinese official's statements.

Fan said last year China lost a good opportunity to do revalue its currency, in July and October.

"High pressure, we don't do it. When the pressure's gone, we forgot," Fan said, to laughter from the audience. "But this time, I think Chinese authorities will not forget it. Now people understand the U.S. dollar will not stop devaluating."

Asked how speculation about revaluation could be curbed, he noted that China imposed a 3 percent tariff on Chinese exports.

Some Chinese experts say that perhaps inflation can be reduced this year, "but I'm not that optimistic," Fan said, noting that fuel prices keep rising.

"So maybe China (will) have 4-5 percent inflation in 2005," he said.

Fan, whose nonprofit institute specializes in analyzing the Chinese economy, stressed that the country's development is a long-term process that will take decades, maybe a century.

Since China's economic modernization began over a decade ago, 120 million rural laborers have moved into cities, but another 200 million or 300 million people need to move into the cities from the countryside to spur development, he said.

"The income disparity is huge, and income disparity will stay with us for a long time, as long as those 200 to 300 million rural laborers stay in the countryside," Fan said.

Nonetheless, William Parrett, chief executive of Deloitte Touche Tohmatsu, told the panel that Chinese companies are making significant progress in becoming global giants, led by state-owned companies.

"It's probably at least 10 years before the objective of the government of 50 of the largest 500 companies in the world being Chinese" is achieved, he said.

Free Report #7

2 Hidden & Sure-Fire Currency Investment Strategies You've Likely Missed:

1. ETF's:

Exchange Traded Funds (ETF's) have taken the markets by storm in recent years. They are generally, but not always, better than mutual funds.

ETF's generally have less expensive management fees, they allow you to invest in sectors in a more targeted fashion, rather than a "diversified basket" of securities like mutual funds, and you can trade them like stocks at any time during normal trading hours, unlike mutual funds with their end of day "net asset values".

The following is a brief listing of currency related ETF's under professional management. Please note that you can diversify your investment portfolio with currency etf's, but you should watch them just like any other investment, and you should not expect to simply "buy and hold" these risky funds. Also, please note that there are other ETF sectors and funds that may be higher performing funds at any given time as compared to currency etf's.

Obviously, you want to be invested in the top performing funds, whether or not they are currency etf's. Two good resources for top rated etf's is Investor's Business Daily http://www.investors.com and http://www.MarketWatch.com . Morningstar also publishes an annual performance and information guide called ETF's 100, available at your local book store or on Amazon.com. And, of course, you can search Google and Yahoo for many etf results, as well as navigating directly to the top etf companies listed below. *Funds come and go, so keep yourself current with these tools.*

You are forecasting a weakening and falling dollar when you invest in most of these etf's, and conversely, a rising or strengthening foreign currency. You can "trade like a hedge fund", and not only capitalize on the rise in the underlying currencies, but you also get paid interest on "rollovers" and "carry trades" within the funds.

Of course, this can also work against your position(s) if the USD strengthens, and the underlying currencies weaken. Most top stock and mutual fund online brokers offer ETF trading capabilities. "Spot" Forex brokers do not offer ETF trading at present, but regular stock brokers do offer ETF's.

RYDEX-SGI:

Euro Currency Trust (FXE): Strengthens when Euro strengthens and U.S. Dollar weakens.

Mexican Peso Trust (FXM): Mexican Peso – see also the USD/MXN "Oil Play" **Free Report** below. Note that the FXM Mexican Peso ETF, trades with a direct correlation to the **FXI** *FTSE/Xinhua China 25 Index*

ETF (iShares), and could prove to also be a good ***"Chinese Yuan revaluation"*** play.

Australian Dollar Trust (FXA): A good China play, as Australia is a major exporter of natural resources to China, especially metals. The AUD is known as a "commodity" related currency.

British Pound Sterling Trust (FXB): Invests directly in the Great British Pound (GBP), which is positively correlated to the EUR, only the GBP is slightly more volatile.

Canadian Dollar Trust (FXC): The Canadian Dollar is a "commodity" related currency, and is especially related to oil, diamonds, metals, and natural resources.

Swiss Franc Trust (FXF): The "Swissie" is a "safe haven" currency, and money flows to the CHF in times of crisis and uncertainty.

Swedish Krona Trust (FXS): Swedish Krona.

Japanese Yen Trust (FXY): The Japanese Yen is a good ***"Chinese Yuan revaluation"*** play. When the Chinese Yuan increases in value, so to does the Japanese Yen.

Weakening Dollar Fund (RYWBX): This fund bets the U.S. Dollar will decrease in value, relative to other currencies. If the USD is weakening, this fund is a hedge, and ideally, the fund will increase in value.

Dynamic Strengthening Dollar Fund (RYSBX): This fund bets the USD will increase in value. Invest in this fund when the USD is strengthening.

Look for more funds and thorough offerings information on the http://www.RydexFunds.com and http://www.CurrencyShares.com web sites.

PowerShares:

Deutsche Bank G10 Currency Harvest Fund (DBV): DBV invests in a "basket" of currencies, including; U.S. Dollar, Euro, Yen, Swiss Franc, Great British Pound, Norwegian Krone, Swedish Krona, Canadian Dollar, Australian Dollar, New Zealand Dollar. http://www.powershares.com

Barclay's iShares:

iShares carries an extensive inventory of foreign "index" funds. http://www.ishares.com

You can also participate in a "managed" carry trade using "G10" currencies (including the U.S. dollar, the euro, the Japanese yen, the Canadian dollar, the Swiss franc, the British pound sterling, the Australian dollar, the New Zealand dollar, the Norwegian krone and the Swedish krona), and without spot trading, by investing with Barclay's Bank PLC, in their USD Intelligent Carry Index (this is an "exchange traded note or etn", with the symbol "ICI", traded with iPath at http://www.ipathetn.com/ICI-overview.jsp). eSignal has an "ICI" indicator.

You can also trade China, through the *FTSE/Xinhua China 25 Index* ETF **FXI** fund (iShares currently offers 17 other *"Asian Index"* funds as well). Note that the FXM Mexican Peso ETF, trades with a direct correlation to the FXI. Both funds could be good ***"Chinese Yuan revaluation"*** plays. (There is also *The Wisdom Tree Dreyfus Chinese Yuan Fund* – CYB – but the price movement of this fund is currently flat, and the prospect of significant returns for you in this etf is small.)

ProFunds:

Falling Dollar Fund (FDPIX): This fund performs well when the USD weakens. This fund is inversely related to the U.S. Dollar Index (USDX).

Rising U.S. Dollar Investor (RDPIX): This fund performs well when the USD strengthens. This fund matches the U.S. Dollar Index (USDX).

http://www.profunds.com

Merk:

Hard Currency Fund (MERKX): A no-load mutual fund that invests in a basket of hard currencies from countries with strong monetary policies, assembled to protect against the depreciation of the U.S. Dollar, relative to other currencies. http://www.merkfund.com

Prudent Bear:

Prudent Global Income Fund (PSAFX): Offered by David Tice at http://www.PrudentBear.com . This fund invests 70% (subject to variations) of its portfolio in foreign currency Treasuries, i.e. Euro, Germany, Norwegian Krone, and a basket of Asian currencies (these holdings may also vary.).

ETF Trading Tactics: Have You Heard of the Euro Currency Trust?

During the past few years, the U.S. dollar has fallen against most major currencies. For example, one U.S. dollar buys about 30% fewer euros and Canadian dollars than in August of 2001.

Based on this fall, I've been receiving questions on the best way to play the continuing fall of the dollar. Recently, I've come across what could be a simple and easy way for individual investors like you and me to profit from the continuing fall of our greenback.

The idea is simple: If you think that Europe's unified currency will rise against the dollar, then a good investment for you would be the **Euro Currency Trust (FXE)**. The FXE is an exchange-traded fund that moves in parallel with the movements of the euro. So if the euro rises, then the FXE rises. And vice-versa.

Why does one currency lose value in relation to another? The value of a country's money reflects interest rates and other broad economic factors. So basically, a position in the FXE can work to offset your total portfolio, which is most likely denominated all in U.S. dollars. It's a simple way for you to devote a small portion of your portfolio to non-dollar assets without being versed on the complexities of currency trading.

With the year-to-date return of the FXE currently at 9.44%, it's clear this instrument is outpacing all the U.S. indices—and at the same time, counteracting the deterioration of the U.S. dollar. Based on those parameters, the Euro Currency Trust (FXE) may be worth a look.

You can also participate in a "managed" carry trade using "G10" currencies (including the U.S. dollar, the euro, the Japanese yen, the Canadian dollar, the Swiss franc, the British pound sterling, the Australian dollar, the New Zealand dollar, the Norwegian krone and the Swedish krona), and without spot trading, by investing with Barclay's Bank PLC, in their USD Intelligent Carry Index (this is an "exchange traded note or etn", with the symbol "ICI", traded with iPath at http://www.ipathetn.com/ICI-overview.jsp. eSignal also has an "ICI" indicator).

2. EverBank:

Everbank http://www.everbank.com offers you several individual World Currency CD's, Access Deposit Accounts, and geographical CD "Baskets" of currencies. EverBank also offers a Pan-Asian CD currency basket, for those of you who wish to play Asian currencies the easy and FDIC insured way. EverBank also offers gold and silver investments, as well as online banking and lending products. Everbank is an Equal Housing Lender and Member FDIC, with over $3.7 billion in assets, and over 400,000 customers. Call 1-800-926-4922 for more information and a prospectus.

Free Report #8

12 Common Trading Mistakes That Will Kill Your Trading Profits!

1. Lack of a clearly defined trading plan.

What currency pairs are you going to trade?

Who will be your dealing desk and trading platform?

What will be your trading methodology?

What trading tools will you use?

Know how and where you are going to enter and exit your trades.

Know how much money you are going to risk on each and every trade.

Know your stop loss targets.

Have an approximate idea of when a market trade should meet your objectives, of when it should begin to make a move, and if it has not done so, get out!

Do you know and understand your market(s)?

2. Lack of money management.

Low risk is trading 5% of your equity at any one time, in all positions.

High risk is 12% equity.

3. Failure to use protective stop loss orders.

Using stop loss orders prevents major wipe-outs of your trading equity.

4. Taking small profits and letting losses run.

It should be the other way around - Stop losses quickly, and let profits run.

5. Holding your position(s) too long.

Don’t get greedy or emotional.

6. Averaging your losses.

Losses are losses. Manage them, don’t rationalize them. Don’t “dollar cost average”

a bad trade, rather, “scale up or down” to enter or take profits in winning trades.

7. Meeting margin calls.

Stop your losses before you get margin calls.

8. Increasing your market exposure.

Manage your money and risk properly. Don’t get greedy.

9. Over-trading your account.

The general rule is; “the more you trade, the less you make”.

10. Failure to take profits from your account.

Trade to make and TAKE profits! Don’t trade “for the fun of it”.

11. Changing your trading strategy during trading.

Changing horses mid-stream causes the rider to fall into the stream and to get wet.

12. Lack of patience.

Let your trades develop and come to you, as opposed to “chasing” or forcing your trades.

Free Report #9

8 Common Traits of Losing Traders: Know What To Avoid!

1. Lack of self discipline.

2. Fear and greed.

3. Danger of success - loss of trading discipline.

4. Over-Confidence - loss of trading discipline.

5. Loss of psychological balance. Why are you trading?

6. Relying upon “hope”, rather than trading skills, knowledge, and discipline.

7. Failure to take profits and stop losses.

8. Failure to understand your personality and intentions.

Free Report #10

“25 Rules of Millionaire Traders!”

1. You must develop self-discipline.

2. Know why you trade.
3. Don’t bet the farm on any one trade.
4. Be mentally independent.
5. Walk before you run.
6. Don’t place all of your equity in any single position.
7. Don’t let your emotions over-rule your brain.
8. Set your trading objectives, then trade toward them.
9. Don’t change your trading strategies mid-stream.
10. Don’t trade too many markets or currency pairs.
11. Do your homework.
12. Don’t always follow the crowd. Know why either way.
13. Never add to a losing position.
14. Cut losses quickly.
15. Let profits run, until you have a good reason to take your profits.
16. When in doubt, don’t trade, or get out of an uncertain trade!
17. Be careful when using stop loss orders, so you don’t get “stopped out” too early.
18. Place calculated buy/sell orders.
19. Add to your winning position(s) carefully, in a calculated manner.
20. Be patient. Let your trading opportunities develop.
21. Trade divergences from the normal patterns for bigger profits.
22. Do not try to pick market tops and bottoms. Take what the market gives you.
23. Trade higher probability markets, currency pairs, times, days, news events.
24. Take an occasional vacation or break from trading. “Trade to live, don’t live to trade”. There is more to life than trading.
25. Master self-discipline, as well as avoid the pitfalls of the “12 Mistakes...” and “8 Traits...” above.

Free Report #11

<u>FINANCIAL PLANNING:</u> Eight Steps To Successful Trader Tax Filing

By Jim Forrester, 2005, taxes can always be tricky, but especially so for traders….

Each New Year brings to a close a trading tax cycle and officially begins the preparation for our annual reckoning with the Internal Revenue Service (IRS). If your income exceeded your expectations, you can bring that sense of accomplishment to the daunting job of tax planning. If your income didn't, a tax professional can help you recoup some of your shortfall through prudent tax strategies. Advance tax planning is a particularly good idea this year, due to tax code changes created by the <u>Working Families Tax Relief Act</u> and the <u>American Jobs Creation Act of 2004</u>.

Because every trader faces unique circumstances, there can be no cookie-cutter, one-size-fits-all tax solution. It is important to consult with a tax professional before making any decision that could affect your federal income tax and/or trader tax status. Here are eight points to consider when you're filing your tax return:

1. Protect your trader tax status.

Nothing can throw a monkey wrench into your tax plan like being denied trader tax status by the Internal Revenue Service. Because trader status is constantly evolving with each tax court decision, it is especially important to position yourself well within the IRS' working parameters before proceeding.

According to the IRS, to qualify as a trader, you must: 1) seek to profit from daily market movements in the prices of securities and not from dividends, interest, or capital appreciation; 2) determine that your trading activity is substantial; and 3) carry on the trading activity with continuity and regularity. Fail any one of those three and you'll be treated as an investor, not a trader, for tax purposes.

What's at stake? Investors are subject to the 2% threshold for deductible investment expenses (and hence cannot write off most of their expenses) and limited to a $3,000 capital loss deduction. But as a trader, you can write off 100% of your expenses, and — if you elect the mark-to-market (MTM) accounting option — you can offset *all* of your losses against income.

New this year (2005): The Frank Chen case. A curious tax court ruling last summer cast a dark cloud over the trader tax status of certain filers. In the Chen case, the judge agreed with the IRS in denying Chen's trader tax status based in part on the fact that trading was not Chen's "sole and primary income-producing activity."

If you make more money at another job, or even *have* another job in addition to your trading, be sure to consult a tax professional before proceeding with your tax preparations.

2. File a timely extension.

Because of the complexities of filing a trader tax return, it's often a good idea to file an extension. If you file an automatic extension by the tax deadline of April 15, your tax deadline is automatically moved to August 16. If you need additional time to complete your taxes, you can file for a second extension by August 16, which would move your tax deadline to October 15. But this second extension is not automatic; you must provide the IRS with a reason for needing extra time and wait to receive the original form marked "granted."

Bear in mind that an extension only gives you extra time to file; you must still pay at least 90% of what you owe by the original April 15th deadline, or your automatic extension will be ruled invalid and you'll be slapped with late penalties of 5% per month up to five months, as well as interest expense on all tax payments after April 15.

3. Report on the correct forms.

Many traders mistakenly report all trading income on schedule D (capital gains and losses). To avoid this common error, if you elected mark-to-market accounting, you should list your trading activity on form 4797 (sales of business property), and if you traded in futures or foreign exchange, you should report these trades on form 6781 (gains and losses from section 1256, contracts and saddles).

4. Don't depend on IRA trades for trader status.

If you are trading in your individual retirement account (IRA) or 401(k) plan, say through a limited liability company, the IRS won't count those trades toward your trader tax status, even if you meet other trader requirements.

5. Beware missteps on "managed accounts."

If you have managed accounts in which you have hired another trader to conduct your trades, the IRS will not count that activity toward your trader tax status, nor allow you to take expenses against it. To successfully claim trader tax status, you must actually be the one pulling the trigger on the trades.

6. Prepare before proceeding with mark-to-market.

The rules of mark-to-market election couldn't be clearer: in order to use MTM this year, you must have notified the IRS of your choice by the tax deadline *last* year. You would then begin using MTM this year by enclosing IRS form 3115 along with your tax return.

But before you make the switch, make sure you separate your investment holdings from your trading stocks and options. Why? Because unless they are clearly separated, you will be required to mark them to market at year's end and report any gain as ordinary income. That could prove disastrous for stocks that have greatly increased in value over time.

The decision to elect mark-to-market is not to be made lightly; it can have a profound positive *or* negative impact on your taxes. Once you elect MTM, there is no going back without IRS approval. Consult a tax professional to see if mark-to-market is right for you.

7. Include a complete trading log.

Traders who elect mark-to-market are often under the misconception that they need only provide their beginning and ending balance on their tax return and not account for the trades in between. The IRS has requested that *every* trader send in a schedule showing all of his or her trades for the tax year, whether filing as a trader or investor. The lone exception is for those trading in futures or forex; you need only submit a net figure (use IRS form 6781).

8. Thank your spouse (again).

Married traders have another good reason to thank their spouse this year: The Working Families Tax Relief Act eliminates the marriage penalty by increasing the standard deduction to double the amount given to single taxpayers through 2010.

Trader tax preparation is often an arduous process that requires a thorough command of current tax law, recent tax court rulings, and IRS interpretation. Before making any decisions that could affect your trader tax status or return, we recommend that you consult a tax professional to determine your best course of action.

Bonus Free Tip

Additionally from Fred Sims, CPA, CFP.

Recent published IRS statistics report that they audit 2.72% of the individual returns filed with a Schedule C (sole proprietorship). In the same report the IRS discloses the partnership tax return audit rate is 0.25%. Tax Tips: Create a partnership entity to report your trading business, and reduce your chance of audit by 90%. Be a “trader” versus an “investor” status in your filings (if, in fact, you are a trader), to take advantage of certain business deductions afforded to traders, that are not afforded to investors.

Bonus Free Tip

Foreign Broker Trading Platforms

Lastly, you may wish to consider and investigate using foreign brokers and their forex trading platforms, as they do not have any obligations to report any capital gains to the IRS. This would be up to you and your voluntary compliance. Of course, you also would not be reporting any trading expenses for deductions in your trading business either, which expenses are associated with your foreign broker trading platform.

You may want to avoid troubled areas, i.e. Greece for its economic woes, and Cyprus for its geographical location, and any other country location in the middle of, or close to, war torn and violent areas, and/or economic fire-storms.

Also, consider that Switzerland, long known for its tax “privacy” status, is currently crumbling under pressure from the U.S. government and the IRS, as UBS is currently handing over thousands of records of U.S. citizens, who held accounts in its Swiss bank (July 2010).

Consider well established and fully capitalized London, Swiss, and/or German brokers, i.e. www.GFTforex.com, www.Saxobank.com, www.DBFX.com (the largest bank in the world).

Bonus Free Tip

Trade Forex In Your IRA

Fortunately, individuals who have self-directed IRAs or Roth IRAs can trade in the forex market as an investment. In order to do this, a forex trading IRA must be opened. Individuals who do this benefit greatly from being able to day trade tax free.

Using forex within a retirement plan also provides added diversification that can be used to add stability to an investor's returns. Furthermore, individuals who already have assets invested in other IRA accounts are able to transfer those assets into a forex IRA account by filling out the necessary paperwork.

As with traditional IRAs, forex IRAs can either be self-directed by the individual opening the account, or managed by a professional forex manager. One very good forex currencies resource for your IRA is www.EverBank.com

Please do your due diligence and seek professional tax and investment advice.

Free Report #12

How To Forecast Profitable Forex Price Movements Using "Artificial Intelligence" - Predicting From 78.22% Up To 97.86% Accurate Wins!

I often hear traders claim that it is impossible to forecast price movement. I claim it is possible, within certain limitations of course, and you can have considerable success and a high degree of accuracy in the process, by utilizing technical analysis, indicators, and artificial intelligence ("AI") in your trade plan execution.

Economists, of course, laugh at the idea that there can be any other method than simply applying pure economic theory and fundamentals.

So how should you decide what you should do in terms of analysis?

I include few fundamental factors in my analysis. I am 95% pure technical analyst, since it works so well for me. If an analyst knows what he's doing, the advantage technical analysis has over fundamental analysis, is the ability to provide accurate targets, both on trends, retracements, and projections. It may also provide good timing, because the fundamentals are already *"factored into"* current price action, and can be effectively "measured" by technical analysis.

To be able to forecast with technical analysis in this way, with a high success ratio, it requires you to have the best forex broker trading platform and desired technical analysis indicators, even ***“AI” systems and pattern recognition*** tools to boost your probabilities of successful forex trading.

Choosing the right broker platform is vitally important. Since there are always several ways a price pattern can develop, a good platform will give you the proper tools you need to *see these proven and profitable patterns develop*, and to *profitably* trade them.

If you wish to “give yourself an additional lift” to higher probability trading, whether you are a new trader or an experienced trader, artificial intelligence, or “AI”, can produce some wonderful results for you, especially when used in addition to the tools discussed in this eBook.

The shorter the forecast time period, the higher the probability exists for a successful trade, i.e. 1-4 days forward is the most you can realistically expect from any “AI” forecast, with a reasonable degree of accuracy. *Of course, “AI” systems and patterns that develop for you on your current charting time periods, i.e. 30 minute, 1 hour, and daily charts, will provide you with exceptionally accurate trades, with high probabilities of success.* These are the “AI” systems and patterns we will discuss below.

Here are some ***WINNING “AI”*** suggestions to take your trading game to the next level:

1. www.Interbankfx.com offers you key pattern recognition for profitable entries and exits. And, as previously discussed, you can also see what chart time periods and currencies are currently the best to trade. These patterns are provided free to you by AutoChartist, through IBFX. When you establish a high probability pattern is developing, AutoChartist will drill down into a pattern, to give you other parameters and signal strength.

2. www.FXCM.com offers you top performing forex trading "AI Systems" that are unique to its trading platform. These systems are ranked and detailed for your immediate use at FXCM. You'll want to follow these rankings weekly and monthly as they are highly likely to rotate and change, so you'll also need to rotate and change for your own optimum forex trading account performance. Remember LTCM years ago. They had a single robust system for many years, until it suddenly failed them, and they went bankrupt almost overnight. Keep your own forex trading robust by rotating winning systems, so you don't fall into the "single system" scenario of eventual failure.

Always apply the proven and winning tools and indicators and concepts as previously discussed in this eBook. *Never* abandon these winning concepts. The mechanical *"systems"* we are discussing in this **Free Report** *are not* a replacement for them, but a possible *"enhancement"* to them.

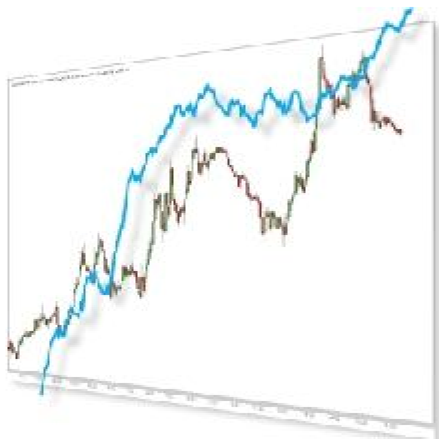
As you can see from the chart below, the "PIPS" and "Win%" can be quite high and satisfying…


TOP PERFORMING SYSTEMS

System Name	Pairs	Start Date	Return in Pips	Max DD	Win%	TradesDetails	Curve
[illegible] Forex	EURJPY	Jul 13, 2009	[illegible]	[illegible]	[illegible]		
Natural Selection	GBPUSD	May 24, 2009	5097.4	[illegible]	[illegible]		
Lipid Mobilization NH	GBPAUD	Jul 20, 2009	[illegible]	[illegible]	[illegible]		
Lipid Mobilization NH	EURJPY	Jul 20, 2009	[illegible]	0	100		
Lipid Mobilization NH	[illegible]	Jul 20, 2009	[illegible]	[illegible]	[illegible]		

FXCM also offers you a proprietary ***<u>"Speculative Sentiment Indicator"</u>*** – "SSI," which tracks the collective positions of speculative ("non-commercial") traders, based upon FXCM's proprietary customer flow of information (based upon approximately 150,000 technically based, short-term traders). This report is in "real-time," and is "forex" currency specific, as opposed to COT reports being weekly (2 weeks in arrears data), and CFTC specific (futures). More can learned about the "SSI" indicator at http://www.fxcm.com (Remember to do the exact OPPOSITE of the speculative retail "dumb" money when placing your trades!).

3. www.GFT.com offers you artificial intelligence ***"Foresight AI™"*** predictive software (& free AutoChartist with $2500 account). Costs $100-$500 per month, and based upon the early "Bradley" model of predictive software for stocks. The "Bradley" model was developed further by Larry Pesavento for Ensign software. Then GFT adapted the model to forex, and their *"AI chart line" establishes trends and potential highs and lows to confirm your entries and exits*. Take a look…



4. www.AutoChartist.com comes free on www.ibfx.com and you can see which trading time periods are currently working best, which currency pairs are currently most profitable to trade, and which patterns are providing traders with accurate and profitable trades. I'm being a little repetitive here, simply to show you AutoChartist directly, just in case you choose a broker other than IBFX or GFT (there are other forex brokers offering Autochartist, but they don't compare).

Others to be aware of:

Louis Mendelsohn: Louis is the creator of artificial intelligence "AI" software called VantagePoint. He claims to increase your trading success probabilities, in several differing markets, from 72.2%, to as high as 80.1% success rates. He states his short-term forecasts are accurate to approximately 4 days into the future, although his software doesn't extend the averages out 4 days. He uses "inter-market analysis" in his proprietary software formula. He also uses a **"predicted <u>ten-day moving average"</u>**, for plotting his software's predictions, as stated in his book, <u>Forex Trading Using Inter-market Analysis</u>. I like his use of moving averages, but I disagree with his software pricing – it's *way* too expensive for what you get for it, when you can use averages on every platform for free. But, if you have money to burn, go to www.tradertech.com (his competition in "AI" is www.neuroshell.com www.wave59.com and www.gftforex.com). I am not an affiliate for any of them.

Note that 4 days forward is a common "predictive capability" amongst most "AI" platforms. Don't expect to see price action months or years into the future. "AI" software isn't a crystal ball, and we're not magicians, and results will vary.

Free Report #13

How To Play My Favorite "Oil" Currency Trade:

You can profitably trade the USD/MXN and CAD/JPY currency pairs simply by watching the movements of oil! Look at the obvious correlation of oil to the Mexican Peso, as seen in the chart below…oil up, MXN up; oil down, MXN down. Since the base currency in this pair is the U.S. Dollar, and the counter currency is the Mexican Peso, the oil relationship will be ***"inverse"*** to the U.S. Dollar, or USD/MXN currency pair. So, if oil goes up, and the MXN is strengthening also, this means the USD is weakening, so your USD/MXN pair will go down in the charts. The 2nd chart below is the USD/MXN pair. I want you to see the direct correlation and relationship oil shares with the MXN in the first chart below….

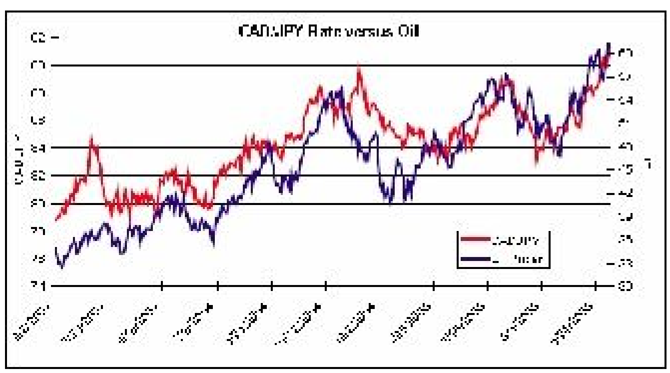
A Favorite "Oil" Trade - Chart of Oil and MXN Direct Relationship

As the USD goes up, the MXN weakens – oil weakens too. As oil goes up, the USD/MXN pair goes down. Notice the first break-out below, when oil went down. Notice this trade set-up again in the spring of 2010 – oil was trending up - the USD had been trending down, with an imminent break-out possibility. Notice also the possible trades occurring within the range of support and resistance, while awaiting a break-out….

USD/MXN – A Profitable "Oil" Trade, As The USD is <u>Inverse</u> to the MXN and Oil

Now take a look at the CAD/JPY currency pair. This pair has a direct correlation to the movement of oil. Oil up – CAD/JPY up too. Oil down – CAD/JPY down too….

CAD/JPY – An "Oil" Trading Pair, With A <u>Direct</u> Correlation Of CAD To Oil



Simply put, the MXN and CAD are considered "resource" or commodity currencies. Oil is a commodity, thus, the direct relationship and correlation of oil to CAD and MXN. You can enjoy many profitable trades, simply by watching the prices of oil in the news.

<u>Free Report #14</u>

U.S. Dollar Secret Conspiracy – You Win Even If The USD Loses:

Secrets You Must Know to Survive the Final Days of the Dollar...

It should come as no surprise when you hear the dollar is in crisis! The dollar has been steadily sinking in value since 2002.

But the real dollar crisis began in late 2008.

Of course no one noticed at the time. Everyone was too caught up with bailouts, a crashing stock market, Lehman going under and electing a new President.

But the truth is... while the Federal Reserve and Treasury were working double-time to fix this recession, other foreign leaders were quietly plotting...

They were secretly planning to use this worldwide financial mess to REPLACE the U.S. dollar as the world's reserve currency.

China pioneered the way...

In December 2008, Chinese officials started making secret, back-room deals with leaders of foreign nations. The purpose? To start trading goods in their local currencies. This effectively cut the U.S. dollar out of their trading. That's huge!

That's not all. Leaders have been making noise about replacing the dollar as the world's reserve currency for the past year. Here's a quick recap of what's been happening...

In March 2009, China's central bank head Zhou Xiaochuan posted an essay on the web that displayed his discontent with the world's reserve currency. "An international reserve currency should not be tied to the interests and economic conditions of any one country."

In July 2009, Russian President Dmitry Medvedev pulled out a sample coin for the new "united future world currency" from his pocket at the G-8 meeting, to show his support for a new reserve currency.

In September 2009, the UN wrote a report that called to replace the U.S. dollar with an artificial currency in global trading. They wrote, "Replacing the dollar with an artificial currency would solve some of the problems related to the potential of countries running large deficits and would help stability."

In November 2009, World Bank President, Robert Zoellick said that with China's growth trend, the Chinese Yuan could develop as an alternative to the U.S. dollar as a global reserve currency in 15 years.

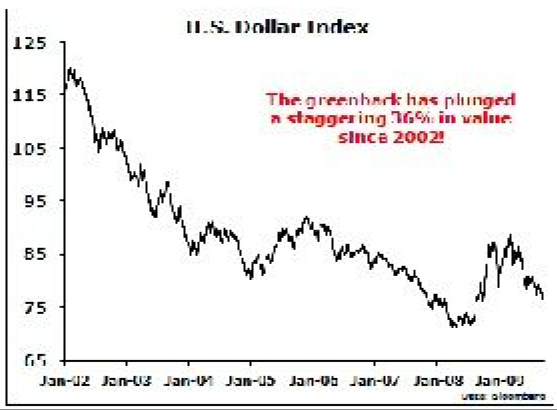
In January 2010, French President Nicolas Sarkozy announced at the World Economic Forum that the world cannot afford to have just one world reserve currency anymore. He stated, "We can't have on the one hand a multi-polar world and on the other a single reserve currency on a global level."

In March 2010, Jim O'Neill, chief economist at Goldman Sachs Group Inc. said that the Yuan is destined to become a global reserve currency which will rival both the dollar and the euro.

What does this mean for you? If the dollar lost its world reserve currency status, it would PLUMMET in value and interest rates would soar. Suddenly the U.S. wouldn't be able to finance our debts, and your every-day Americans would pay the price for the U.S. leaders' lack of foresight.

Think higher taxes... soaring inflation... and practically worthless dollars.

You need to take action now to protect yourself.



Federal budget deficit hits April record

By MARTIN CRUTSINGER, AP Economics Writer Martin Crutsinger, Ap Economics Writer, April, 2010:

WASHINGTON – The federal budget deficit hit an all-time high for the month of April as government revenue fell sharply.

The Treasury Department said Wednesday the April deficit soared to $82.7 billion, the largest imbalance for that month on record. That was significantly higher than last year's April deficit of $20 billion and above the $30 billion deficit private economists had anticipated.

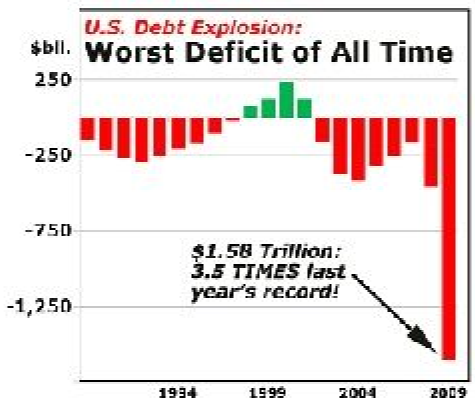
The government normally runs surpluses in April as millions of taxpayers file their income tax returns. However, income tax payments were down this April, reflecting the impact of a severe recession which has pushed millions of people out of work.

Revenues for April were down 7.9 percent from a year ago, dipping to $245.3 billion. That decline included a fall in individual income tax payments. That reflected not only the impact of millions of people out of work but also tax relief provided through the economic stimulus program that Congress passed in February 2009.

The back-to-back deficits in April marked a first, according to monthly budget records that go back to 1954. During that period, the government has run April surpluses in 43 of 56 years.

Through the first seven months of the current budget year, which began on Oct. 1, the deficit totals $799.7 billion, down only slightly from last year's deficit during the same period of $802.3 billion.

The Obama administration is forecasting that the deficit for this year will hit an all-time high of $1.56 trillion, surpassing the current record of $1.4 trillion set last year. However, many private economists believe this year's imbalance will be closer to the $1.4 trillion set last year.



The U.S. dollar's "reserve currency" status is all that stands between you and a tidal wave of crushing interest rates and soaring prices.

For over 60 years, the U.S. dollar has been the world's reserve currency — the currency the rest of the world must have to trade. But China has already started taking dramatic steps to remove the dollar from that role.

> "...reserve currency status isn't a birthright and it can vanish when nations are irresponsible for too long."
>
> *The Wall Street Journal*

Three recent, undeniable developments — strikes against the dollar — could now prove to be the tipping point in that collapse…

Three Strikes and the Dollar's Out - China's Three-Step Plan to Dollar Freedom…

China is the largest holder of dollar denominated investments and reserves in the world. And they're losing money on it all. How much? Charles Dumas, chief economist and director at Lombard Street Research – economic consultants to some of the world's largest banks for nearly 20 years – sums it up...

"China makes 1-2 percent on its (largely) dollar reserves. It then loses up to 10 percent on the exchange rate and suffers a Chinese inflation of 6 percent for a total return in Renminbi ("the people's money") of about minus 15 percent. That is a loss of $270 billion a year, or a stunning 7-8 percent of gross domestic product."

The bottom line is, China is losing big on its dollar investments. And they're looking to get out of this losing trade. First by reducing reliance on the dollar.

Over the last year, China has entered into currency swap agreements with several Asian neighbors including Malaysia, South Korea, Hong Kong and Indonesia. Currency swap lines are essentially currency accounts where one country holds the others currency. That way they can trade with each other directly. Without having to swap for dollars first.

Ordinarily you might say "so what" to agreements like these between Asian nations. But now China has arranged swaps with Brazil and Argentina. Two commodity-rich, Latin American countries who are just as happy to take the dollar out of the trade loop as well.

Step One: China kicks dollars out of their trade loop.

→Fact: China kicks dollars out of their trade loop.
STRIKE ONE

But that's only the beginning…

“Sooner than we think, the dollar may be challenged by other currencies, most likely the Chinese renminbi. This would have serious costs for America...”

-- The New York Times

China’s down payment on the future…

Since they're not using as many dollars for international trade, they're putting them to another use.

The Wall Street Journal reports... *“Chinese government banks are willing to extend huge foreign loans to further China's long-term energy-security goals: ensuring diverse global supplies and winning entree into competitive regions for its oil companies.”*

This buys them a lot of good will and favorable trade terms from countries around the world.

They recently extended $10 billion in loans to Brazil's national oil company, Petrobras.

They've also injected more of their reserve dollars into other resource rich countries like Russia, Kazakhstan and regions of Africa. Lending money these countries wouldn't have access to otherwise, but also buying goodwill of some of the most resource rich countries in the world.

Step Two: China's taking their surplus dollars and investing them outside the U.S. to ensure *their* future economic security.

→Fact: China is investing their dollar reserves outside the U.S. to ensure their future economic security.

STRIKE TWO

“...reserve currency status isn't a birthright and it can vanish when nations are irresponsible for too long.”

- The Wall Street Journal

What’s bad for the dollar can be VERY good for you!

China turning its back on the dollar carries big, bad implications for dollar holders everywhere – including you...

Being the world's reserve currency is a big deal. It means the U.S. can buy commodities like food and oil cheaper than the rest of the world, because we don't have to buy another currency first. It also means that we can borrow money to fund our deficits cheaper because other countries who hold large stores of dollars will lend them back to us (by buying our treasury bonds) more readily.

Without that edge, it would lead to skyrocketing prices everywhere, from the supermarket to the gas pump. On top of that, we'd see soaring interest rates – including the all the rates that affect you... From your mortgage to your credit cards...

But...

Investors who know how to take advantage of forex currency swings can find hugely lucrative opportunities to profit.

Three strikes and it's time to arm yourself against the long term fallout of their actions…

Finally there are “experts” who claim the Chinese would never do anything to hurt the dollar. They say the Chinese simply have too much exposure to dollar based investments. It would be like committing financial suicide.

But here's the truth. ***Most recent numbers show China controls nearly 700 billion in U.S. debt, down from $890 billion in U.S. debt last year.*** And they certainly want to *appear* as if they're still willing to support U.S. debt. But in reality, they've been quietly adjusting their holdings to shorter terms underlining their loss of faith in the U.S. In fact, Reuters reported China...

“... has turned its back on long-term U.S. debt in favor of shorter maturities…

Between August 2008 and March 2009, China bought $171.3 billion of bills, debt that carries a maturity of up to a year, compared with just $22.9 billion of longer-term notes and bonds with a maturity of two years or more. It also sold $23.5 billion of long-term agency debt.”

Now this isn't happening by accident. And the shift isn't going to play out in one day. It's a complex undertaking – like a game of chess. When you play chess, you try to maneuver your opponent into the most defensive position possible taking his pieces one by one.

That is exactly what China is doing. **And when they're finished with Step 3...**

China won't care what happens to the US dollar.

Fact: China won't care what happens to the U.S. dollar. STRIKE THREE

Because these steps are so subtle and the complex, you need to take action to protect your savings – **right now**. Because in a year from now, or maybe even less, when China's actions are felt widespread, it will be too late. You **must** act while your dollars still have value left.

First: You need to arm yourself with knowledge of what's really going on. If you've read this far then you're already ahead of the game on that count.

Second and more importantly...

Arm yourself with the tools to capitalize on this shift…

Right now it's critical to move at least a portion of your portfolio into investments that are impervious to these dollar threats. Simple, safe, proven and profitable solutions that offer any investor the protection and income potential of the largest, most liquid markets on earth, with returns significantly higher than U.S. stocks. No matter your experience level, your capitalization, your investment needs – ***forex trading could be <u>YOUR</u> financial life-boat!***

This is no mere "prediction." The greatest dollar disaster in U.S. history has already begun…

There is no question that the once proud U.S. dollar is now suffering through its most severe bear market in history.

The greenback has plunged a staggering 36% — in real trade-weighted terms — since its high of $120.2 in 2002.

That means every dollar in your wallet is really worth only 64 cents compared to just a few years ago… and that's not even accounting for the rising price of goods and services!

Since March 4, 2009 alone, the widely watched U.S. Dollar Index has dropped more than 14.3%. In just these few, brief months, the greenback has plunged a whopping 15% against the euro and 14% against the British pound.

At every step in this great dollar decline, the Fed chief has sworn that he supports a strong dollar. He has promised that the dollar would retain its dominant role as the world's reserve currency.

But in reality, Bernanke has done *absolutely nothing* to halt the dollar's fall. To the contrary: The Fed Chief has been printing new, un-backed dollars like there's no tomorrow — a move that can only cause the dollar's value to vanish *faster!*

It's almost enough to cause any *reasonable* person to question his competence. But the truth is, Bernanke knows exactly what he's doing.

Why has the Fed chief failed to come to the dollar's defense? Does he even *know* what causes a currency to rise or fall in value?

The answer is clearly that Mr. Bernanke knows *exactly* what he's doing. In 2002 — during one of his most famous speeches — he stated:

"By increasing the number of U.S. dollars in circulation, or even by credibly threatening to do so, the U.S. government can also reduce the value of a dollar in terms of goods and services, which is equivalent to raising the prices in dollars of those goods and services."

Make no mistake about it: Bernanke *is fully aware* of what's needed to defend the dollar. He could light the fuse on the greatest bull market in the history of the greenback with the stroke of a pen if he *wanted* to.

In fact, the *last* thing Bernanke or his boss, President Obama, want right now is a strong dollar.

The sacking and burning of the U.S. economy has begun… led by the banks, brokers, and Washington itself… And its survival rests in the hidden hands of a private corporation?

Contrary to popular belief, the Federal Reserve is not a government institution, but a *private credit monopoly* managing the supply of U.S. dollars. And it charges the Treasury — and hence, you, me, and every other taxpayer in America — for its services.

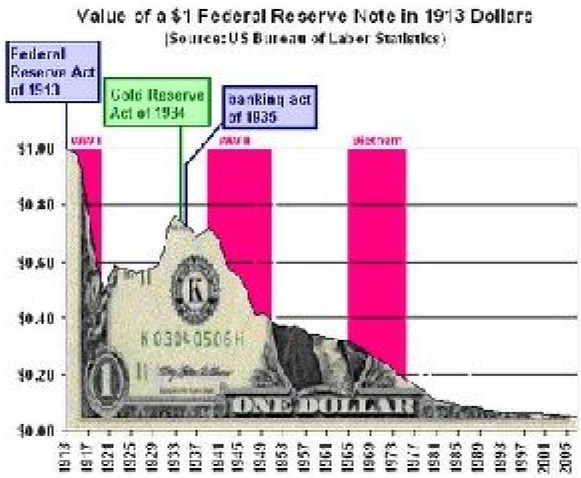
But while you may find this disturbing … even a conflict of interest … the *rea*l problem is the Fed makes its decisions behind closed doors — with little, if any, transparency or input from our elected officials.

The Fed's web of shadowy deceit permeates every nook and cranny of the global financial system — affecting nations … governments … businesses … all the way down to you, me and every other individual on the planet.

This was so eloquently stated by Louis T. McFadden, Chairman of the House Banking and Currency Committee in 1932:

"The sack of the United States by the Fed is the greatest crime in history. Every effort has been made by the Fed to conceal its powers, but the truth is the Fed has usurped the government. It controls everything here and it controls all our foreign relations. It makes and breaks governments at will."

Everything that transpires in the global financial markets is, ultimately, bought and paid for through this 'secret government' — the Fed and its worldwide web of central bankers, government Treasury officials and economic ministers from the G-7 nations — a*nd the Fed will ultimately be charged with fixing them.*



Obama and Bernanke simply have *no choice* but to *continue* gutting the dollar's buying power…

Consider these facts:

> ***"Central banks have been actively replacing their dollar reserves …"***

➡ The U.S. government's official debt is at an all-time high of $11.8 trillion. Every year, Washington has to make a staggering $335.3 billion in interest payments just to avoid default on that debt. In fact, just the interest on the national debt now equals 12% of all federal spending.

➡ The Federal Reserve is also in hock up to its eyeballs — the liabilities on its balance sheet have roughly DOUBLED — from $1.2 trillion a year ago to more than $2 trillion today …

➡ Most terrifying of all with the first wave of 4 million baby boomers reaching retirement age this year, unfunded government IOUs are coming due on Social Security, Medicare/Medicaid, Prescription Drugs, and Federal pension payments — and those obligations are enormous: An estimated $104 TRILLION.

Think of it: The U.S. government is now in debt to the tune of nearly 8.5 years worth of all the goods and services produced in this country by every man and woman in the workforce!

We are now the single most indebted nation in the history of the planet. We owe more to foreign investors, retirees and ordinary citizens than we could ever hope to repay.

And that's not the half of it: This year, the Obama administration will add an all-time record $1.8 trillion to the national debt, pushing our budget deficits to almost 13% of GDP.

This year and every year for the foreseeable future, Washington will have to borrow 80% of the world's surplus savings just to pay its bills!

Like a shopaholic living on a credit high, America's whirlwind borrowing and spending spree is now hitting a brick wall

Overseas investors fund fully 50% of our borrowing addiction, holding $6.2 trillion in U.S. securities — including almost $4.6 trillion in bonds. They're haunted by the spectacle of Washington's spending binge.

But even as investors worldwide begin to doubt America's ability to bear its debts, yet alone pay them off, the U.S. government continues to ramp up spending — trying to hawk even more Treasuries to foreign lenders who are getting tired of footing the bill for our spendthrift ways … and are becoming increasingly skeptical of our ability to pay our debts.

The result: More foreign central banks, overseas fund managers and investors flee, leaving the U.S. government with no choice but to pump out more and more unbacked paper dollars and dump them into the economy — further eroding their value.

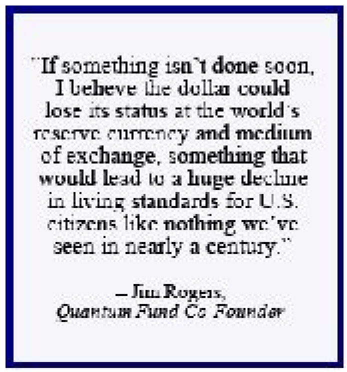
It's a perpetual cycle that can only lead to one thing: *printing presses blazing on overdrive, a massive surge in interest rates, an explosion of inflation, and the total destruction of our standard of living* - at least, for those who aren't aware or prepared.

> "Any nation that spends money it doesn't have now will have to forego that money later...When you've got people like Warren Buffett betting $20 billion that it could happen soon, it'd be foolish to suppose that America can continue partying on with impunity forever."
>
> -- James Ferguson, *MoneyWeek*

What Do *TWO* Currency Trading Billionaires Have To Say About The U.S. Dollar?

Mr. Soros could be considered to be one of the “illuminated” ones. He doesn’t trade markets, he makes them! Well worth reading how he does it and how he thinks. You can sign up for his newsletter at www.GeorgeSoros.com His books are on Amazon too.

One of his more important public and repeated comments involves the **fate of the U.S. Dollar**. In his opinion, **it will continue to weaken**. Jim Rogers also states, **“Get out of the dollar**, teach your children Chinese, and buy as many commodities as you can.” He moved from New York to Singapore in 2007.



Important update – June, 2010! China has once again allowed the Yuan to gain strength against the U.S. Dollar. See more on the Chinese Yuan in your **Free Report** above.

In addition to all of the above, the Chinese government seeks to further distance itself from the U.S. Dollar long term! *What does this mean for you and me as currency traders?* ***FADE the U.S. Dollar long term, as it weakens against the Yuan and other global currencies, and is eventually replaced as the “Standard” world currency!***

The “Chart Guys” All Agree: The Dollar is Breaking Lower

The U.S. Dollar Index tracks the U.S. dollar vs. a basket of currencies (with the euro as its largest constituent). Just in the past few weeks (July/August 2010), the dollar index has broken through its downtrend. You can see how it has fallen below its green trend-line below.

In plain English, this means that the dollar has reached the point of no return (at least anytime soon). It’s about to start falling faster…

The Proof the Dollar Is About to Fall Even Farther…

If that wasn't enough, too many retail traders are still buying up the dollar right now. Usually when that happens, the pros come in and start selling.

I can tell, because the dollar has reached an extreme reading at this point according to the "Speculative Sentiment Index." The "SSI" is one of my all-time favorite indicators, as it shows the sentiment readings for approximately 150,000 different Forex traders (This is FXCM's internal version of the "COT – Commitment of Traders" reports. See also www.Forex-Currency-Trader.com for more on the COT reports).

In other words, it tells you exactly how the retail guys – the traders at home like you and me – "feel" (**sentiment**) about certain currencies.

Without getting too technical, the "SSI" tells me how many traders are on the either side of a trade – a ratio of how many traders are buying compared to selling. If the "SSI" number gets higher than 3.00, it means that a certain currency pair is over-done and is at an extreme reading - and due for a turn-around soon.

According to the "SSI," there are currently five retail traders buying dollars for every one trader buying the Japanese yen.

There are three traders buying the dollar for every one trader buying the Swiss franc!

And there are three traders buying the dollar for every one buying the Canadian dollar!

This tells me all these misguided retail traders are buying up the buck, and the smarter professional guys are preparing to sell.

The following tables contain fun and interesting historic facts about the U.S. Dollar…

Comparative Value of the U.S. Dollar (Approximate)

YEAR	CPI Avg	$ Value	Inflation	Known History
1800	51.00	$1.961		
1801	50.00	$2.000	-2	
1802	43.00	$2.326	-14	
1803	45.00	$2.222	4.7	Louisiana Purchase
1804	45.00	$2.222	0	
1805	45.00	$2.222	0	
1806	47.00	$2.128	4.4	
1807	44.00	$2.273	-6.4	
1808	48.00	$2.083	9.1	
1809	47.00	$2.128	-2.1	
1810	47.00	$2.128	0	
1811	50.00	$2.000	6.4	
1812	51.00	$1.961	2	War of 1812
1813	58.00	$1.724	13.7	
1814	63.00	$1.587	8.6	
1815	55.00	$1.818	-12.7	Napoleon defeated
1816	51.00	$1.961	-7.3	
1817	48.00	$2.083	-5.9	
1818	46.00	$2.174	-4.2	
1819	46.00	$2.174	0	
1820	42.00	$2.381	-8.7	
1821	40.00	$2.500	-4.8	
1822	40.00	$2.500	0	
1823	36.00	$2.778	-10	
1824	33.00	$3.030	-8.3	
1825	34.00	$2.941	3	
1826	34.00	$2.941	0	
1827	34.00	$2.941	0	first railroad in U.S.

1828	33.00	$3.030	-2.9	
1829	32.00	$3.125	-3	
1830	32.00	$3.125	0	
1831	32.00	$3.125	0	
1832	30.00	$3.333	-6.3	
1833	29.00	$3.448	-3.3	
1834	30.00	$3.333	3.4	
1835	31.00	$3.226	3.3	
1836	33.00	$3.030	6.5	Colt's revolver
1837	34.00	$2.941	3	
1838	32.00	$3.125	-5.9	
1839	32.00	$3.125	0	
1840	30.00	$3.333	-6.3	
1841	31.00	$3.226	3.3	
1842	29.00	$3.448	-6.5	
1843	28.00	$3.571	-3.4	
1844	28.00	$3.571	0	
1845	28.00	$3.571	0	
1846	27.00	$3.704	-3.6	
1847	28.00	$3.571	3.7	
1848	26.00	$3.846	-7.1	
1849	25.00	$4.000	-3.8	California gold rush
1850	25.00	$4.000	0	end "little ice age" (~1350-1850) warm trend
1851	25.00	$4.000	0	
1852	25.00	$4.000	0	
1853	25.00	$4.000	0	
1854	27.00	$3.704	8	
1855	28.00	$3.571	3.7	
1856	27.00	$3.704	-3.6	
1857	28.00	$3.571	3.7	

1858	26.00	$3.846	-7.1	
1859	27.00	$3.704	3.8	Colorado gold rush
1860	27.00	$3.704	0	
1861	27.00	$3.704	0	Civil War
1862	30.00	$3.333	11.1	
1863	37.00	$2.703	23.3	
1864	47.00	$2.128	27	
1865	46.00	$2.174	-2.1	end Civil War
1866	44.00	$2.273	-4.3	
1867	42.00	$2.381	-4.5	
1868	40.00	$2.500	-4.8	
1869	40.00	$2.500	0	Transcontinental Railroad completed
1870	38.00	$2.632	-5	Suez Canalcompleted
1871	36.00	$2.778	-5.3	
1872	36.00	$2.778	0	
1873	36.00	$2.778	0	"Long Depression" ~1873 -- ~1897
1874	34.00	$2.941	-5.6	
1875	33.00	$3.030	-2.9	
1876	32.00	$3.125	-3	A.G. Bell- telephone
1877	32.00	$3.125	0	
1878	29.00	$3.448	-9.4	
1879	28.00	$3.571	-3.4	
1880	29.00	$3.448	3.6	
1881	29.00	$3.448	0	
1882	29.00	$3.448	0	
1883	28.00	$3.571	-3.4	
1884	27.00	$3.704	-3.6	
1885	27.00	$3.704	0	
1886	27.00	$3.704	0	gasoline automobiles in Europe
1887	27.00	$3.704	0	

1888	27.00	$3.704	0	
1889	27.00	$3.704	0	
1890	27.00	$3.704	0	
1891	27.00	$3.704	0	
1892	27.00	$3.704	0	
1893	27.00	$3.704	0	
1894	26.00	$3.846	-3.7	
1895	25.00	$4.000	-3.8	Marconi-- telegraph
1896	25.00	$4.000	0	Klondike gold rush; penicillin
1897	25.00	$4.000	0	
1898	25.00	$4.000	0	end Spanish-American War
1899	25.00	$4.000	0	
1900	25.00	$4.000	0	
1901	25.00	$4.000	0	
1902	26.00	$3.846	4	Oldsmobile production line
1903	27.00	$3.704	3.8	
1904	27.00	$3.704	0	
1905	27.00	$3.704	0	
1906	27.00	$3.704	0	
1907	28.00	$3.571	3.7	
1908	27.00	$3.704	-3.6	
1909	27.00	$3.704	0	
1910	28.00	$3.571	3.7	Ford production line
1911	28.00	$3.571	0	
1912	29.00	$3.448	3.6	
1913	29.70	$3.367	2.4	Federal Reserve System
1914	30.10	$3.322	1.3	WW-Ibegins
1915	30.40	$3.289	1	
1916	32.70	$3.058	7.6	

1917	38.40	$2.604	17.4	U.S. enters WW-I
1918	45.10	$2.217	17.4	end WW-I; influenza epidemic
1919	51.80	$1.931	14.9	influenza epidemic-- (epidemic list)
1920	60.00	$1.667	15.8	recession
1921	53.60	$1.866	-10.7	
1922	50.20	$1.992	-6.3	
1923	51.10	$1.957	1.8	
1924	51.20	$1.953	0.2	
1925	52.50	$1.905	2.5	
1926	53.00	$1.887	1	
1927	52.00	$1.923	-1.9	
1928	51.30	$1.949	-1.3	
1929	51.30	$1.949	0	Great Depression-- through 1930's
1930	50.00	$2.000	-2.5	
1931	45.60	$2.193	-8.8	
1932	40.90	$2.445	-10.3	New Deal
1933	38.80	$2.577	-5.1	Third Reich
1934	40.10	$2.494	3.4	
1935	41.10	$2.433	2.5	
1936	41.50	$2.410	1	
1937	43.00	$2.326	3.6	recession
1938	42.20	$2.370	-1.9	
1939	41.60	$2.404	-1.4	invasion of Poland- WW-II
1940	42.00	$2.381	1	
1941	44.10	$2.268	5	Pearl Harbor- U.S. in WW-II
1942	48.80	$2.049	10.7	baby boom (~1940 - 1957)
1943	51.80	$1.931	6.1	
1944	52.70	$1.898	1.7	
1945	53.90	$1.855	2.3	end WW-II
1946	58.50	$1.709	8.5	ENIAC -- computer

1947	66.90	$1.495	14.4	
1948	72.10	$1.387	7.8	
1949	71.40	$1.401	-1	
1950	72.10	$1.387	1	Korean War
1951	77.80	$1.285	7.9	
1952	79.50	$1.258	2.2	
1953	80.10	$1.248	0.8	end Korean War
1954	80.50	$1.242	0.5	
1955	80.20	$1.247	-0.4	
1956	81.40	$1.229	1.5	
1957	84.30	$1.186	3.6	baby boom peak
1958	86.60	$1.155	2.7	U.S. space programbegins
1959	87.30	$1.145	0.8	Integrated Circuit; Vietnam war
1960	88.70	$1.127	1.6	
1961	89.60	$1.116	1	
1962	90.60	$1.104	1.1	
1963	91.70	$1.091	1.2	
1964	92.90	$1.076	1.3	
1965	94.50	$1.058	1.7	
1966	97.20	$1.029	2.9	
1967	100.00	$1.000	2.9	
1968	104.20	$0.960	4.2	
1969	109.80	$0.911	5.4	
1970	116.30	$0.860	5.9	
1971	121.30	$0.824	4.3	
1972	125.30	$0.798	3.3	
1973	133.10	$0.751	6.2	Arab oil embargo
1974	147.70	$0.677	11	
1975	161.20	$0.620	9.1	personal computer; end Vietnam war
1976	170.50	$0.587	5.8	

1977	181.50	$0.551	6.5	
1978	195.40	$0.512	7.7	
1979	217.40	$0.460	11.3	oil crisis-- Iranian revolution
1980	246.80	$0.405	13.5	
1981	272.40	$0.367	10.4	
1982	289.10	$0.346	6.1	
1983	298.40	$0.335	3.2	
1984	311.10	$0.321	4.3	
1985	322.20	$0.310	3.6	
1986	328.40	$0.305	1.8	
1987	340.40	$0.294	3.6	
1988	354.30	$0.282	4.1	
1989	371.30	$0.269	4.8	Berlin Wall falls
1990	391.40	$0.255	5.4	
1991	408.00	$0.245	4.2	USSR dissolved; Persian Gulf War
1992	420.30	$0.238	3	
1993	432.70	$0.231	3	
1994	444.00	$0.225	2.2	
1995	456.50	$0.219	2.8	
1996	469.90	$0.213	2.9	
1997	480.80	$0.208	2.3	
1998	488.30	$0.205	1.6	
1999	499.10	$0.200	2.2	
2000	515.80	$0.194	3.4	
2001	530.10	$0.189	2.8	9-11
2002	538.80	$0.186	1.6	
2003	551.10	$0.181	2.3	Invasion of Iraq
2004	565.80	$0.177	2.7	oil price increases
2005-2010	584.90	$0.171	3.4	Chinese Yuan un-pegs, pegs, de-pegs from U.S. Dollar

<u>Free Report #15</u>

"Secret Currencies" They Don't Want You To Know About:

A new global reserve currency will soon crush the dollar…

Thanks in large part to the unprecedented explosion of deficits under the Obama administration … the U.S. Treasury's dumping of record numbers of debt instruments on the market … and the Fed's unlimited printing of money … foreign investors are recoiling in horror — *even demanding that the greenback be <u>abandoned</u> as the world's reserve currency.*

The signs are all around us in bright, flashing neon:

> The G-7's funding of the IMF with $1 trillion … new regulatory powers … and broader use of the IMF's Special Depository Receipts, or SDRs, confirms that the stage is being set for an eventual new monetary order.

> China recently established a $95 billion currency swap with other Southeast Asian countries, and a $10 billion currency swap with Argentina — the first major yuan swap agreement with a Latin American country — directly threatening the dollar south of the border. Its goal: To aggressively take its yuan to the next sphere of influence in the currency markets, forcing a worldwide monetary change …

> China is aggressively at work lobbying for a new global reserve currency and leading the effort to establish an Asian currency reserve fund …

> South America's Bank of the South will likely open its doors soon with seed capital from Argentina, Brazil, Venezuela, Bolivia, Ecuador, Paraguay and Uruguay. Its objective: *Independence from the World Bank, the IMF and the U.S. dollar!*

At the same time, calls for a new reserve currency from the U.N., France, India, Russia, Brazil and more — as well as economic thinkers such as George Soros and Nobel Prize winning economist Joseph Stiglitz — are getting louder and louder.

Mark my words: Sometime in the not-too-distant future, the U.S. dollar will cease to exist as the world's reserve currency.

When that happens, demand for dollars will fall off a cliff. The steady but gradual decline in the dollar's value we've seen so far will deteriorate into an all-out rout.

This "Secret Solution" for the world's debt crisis
will destroy what little is left of the dollar's value virtually overnight!

It's a strategy central bankers have employed in the past. One designed to ease severe financial crises and the burden of all bad debts in the world — by reducing the value of all paper, or fiat currencies — inflating away debts and thereby re-inflating asset prices.

It was used in 1933 by President Franklin D. Roosevelt in an effort to help end the Great Depression, via Executive Order #6102.


UNDER EXECUTIVE ORDER OF
THE PRESIDENT

all persons are required to deliver

ON OR BEFORE MAY 1, 1933

all GOLD COIN, GOLD BULLION, AND GOLD CERTIFICATES now owned by them to a Federal Reserve Bank, branch or agency, or to any member bank of the Federal Reserve System.

In 1933, FDR confiscated gold, gutting the value of the dollar by 70% virtually overnight!

By suddenly, artificially raising gold prices a whopping 69.3%, FDR effectively devalued the paper dollar and kick-started asset reflation in hopes the economy would crawl its way out of the deflationary spiral it was in.

Did it work? *You bet* it did!

But savers — those counting on their hard-earned money to get them through the depression unscathed — got annihilated as their greenbacks *lost nearly 70% of their purchasing power in a single day!*

If you think it can't happen now, think again …

Some version of Roosevelt's debt solution — suddenly gutting the value of a currency in order to repay debt with cheaper money — has been used by almost every country on the planet.

It was used repeatedly in ancient Rome. And it's been used in Brazil, Russia, Argentina, France, Australia, the UK and in many other countries since the 1940s.

So there are plenty of precedents. This time, however, there will be no confiscation of gold — even the hint of the "C" word would trigger riots across the globe.

But you know what? They don’t have to confiscate gold …

All they have to do is *cease all gold sales*, then **raise the current official central bank price of gold from its booked value of $42.22 an ounce — to a price that monetizes a large enough portion of the world’s outstanding debts.**

That way, just like in 1933, the debts become a fraction of re-inflated asset prices (led higher by the gold price).

When it happens, it’s going to occur behind closed doors in a series of meetings of central bankers, government treasury officials and economic ministers from the largest economies in the world.

In fact, the process has already begun with the explicit calls you’ve been hearing in the press from heads of state for “a new financial architecture” … “a new Bretton Woods” … “new financial regulatory structures.”

The actual announcement may take months, or perhaps even a year or two, to unfold. But I have absolutely no doubt that money — *the U.S. dollar and every other major paper currency* — will soon be gutted of its value by decree.

There is simply no other way out. No other way for Washington to make good on the estimated $104 TRILLION it owes. No other way for the other G-7 nations to service the equally massive debts they’ve piled up.

Every central banker and savvy politician in the world realizes the only way out is for the dollar and every other major currency to plunge in value. And the only way for that to happen is for the G-7 to make it happen — by dictating higher gold prices and by extension, higher prices for silver, energy, food, and the resources required for construction and manufacturing. Even for select real estate markets!

Sky-high inflation dead ahead!

Inflation will catapult so high that, in four years, it will take at least twice as much income just to survive. You’ll need to pay $100,000 for what $50,000 costs you today.

It could get much worse: In 1923 Germany, inflation was so rampant some people fed Papiermarks into their stoves, because they burned longer than the amount of wood they could purchase. And while this sounds extreme, the signs are everywhere that we're swiftly heading down the same path.

In 1923, German Papiermarks burned longer than the amount of wood they could purchase!

This will NOT be the relatively mild but still devastating inflation of years past, caused by higher energy prices, soaring wages or even shortages in select commodities.

The coming hyperinflation will be triggered by *the death of the dollar* as the world's reserve currency … a collapse in confidence in the U.S. government … and the ensuing stampede of global investors out of the dollar and into things that protect them as the dollar careens into the abyss.

I have no doubt that within 12 to 18 months, we will likely see some of this country's highest inflation rates ever — well into the double digits.

That's why, when the cat is finally out of the bag, it will spark a stampede of investors fleeing the dollar and flooding into hard assets — triggering *massive volatility* in all markets — driving the prices of gold, oil, gas, coal, agricultural commodities and more into the stratosphere!

As you might suspect, it's going to affect you in ways most people haven't even begun to fathom. It will mean …

- *The purchasing power of your money will collapse like a house of cards.*
- *The prices of the most basic goods and services will soar.*
- *Savers will be left in the dust as the value of their cash implodes.*

For the unprepared, it will be a disaster of epic proportions. But for those who truly understand history, the profit opportunities will be almost boundless and found in every corner of the globe!

The world's savviest investors are ALREADY hedging against this rapidly unfolding dollar disaster, and they're making money hand over fist… *Trading Forex Currencies!*

Bailout Nation: Setting Up for a Currency Collapse…

The balance sheets of the Federal Reserve and U.S. Treasury have spiked in

unprecedented fashion as the feds find ever-more creative ways to absorb the garbage clogging up the financial system. Here's a run-down:

October financial system "rescue" package: $800 billion
Federal Housing Administration financing: $300 billion
Loans to banks via Fed's Term Auction Facility: $200 billion
Fannie Mae and Freddie Mac: $200 billion
Purchases of mortgage securities: $144 billion
JPMorgan Chase: $87 billion
AIG: $85 billion
Loans from Exchange Stabilization Fund: $50 billion
Bear Stearns: $29 billion
Mortgage community grants: $4 billion

The total so far is at least $1.9 trillion, which works out to $17,000 per U.S. household.

That doesn't include the $5+ trillion in Fannie/Freddie mortgages the taxpayers are now backing up. Nor does it include the re-capitalization of the FDIC (which is currently operating on a lower-than-mandated asset base of $45 billion to back up some $5 trillion in deposits). And we haven't even gotten started on Social Security and Medicare. They are underfunded by tens of trillions of dollars.

The Federal Reserve Board, which has been printing money like there is no tomorrow in its failed efforts to prop up the collapsing U.S. financial sector is deeply in the red. Before the current crisis, the Fed had $868 billion in stable assets on its balance sheets. By November 2008, it had nearly $2 trillion in bad paper bought from failed U.S. financial institutions with inflationary dollars.

As Federal Reserve Governor Richard Fisher notes, *"Throughout history, many nations, when confronted by sizable debts they were unable or unwilling to repay, have seized upon an apparently painless solution to this dilemma: monetization. Just have the monetary authority run cash off the printing presses until the debt is repaid, the story goes, then promise to be responsible from that point on and hope your sins will be forgiven by God and Milton Friedman and everyone else. We know from centuries of evidence in countless economies, from ancient Rome to today's Zimbabwe, that running the printing press to pay off today's bills leads to much worse problems later on. The inflation that results from the flood of money into the economy turns out to be far worse than the fiscal pain those countries hoped to avoid."*

In this volatile environment, it's tough to make predictions with a great deal of specificity. One thing is for sure, though: the amount of new dollars that will be needed to keep our Ponzi scheme of a government and banking system going means that any dollars in existence today are going to be worth a lot less in the future.

"Globally Coordinated Currency Manipulations Very Likely, And A New Global Currency Possible…"

The dollar strengthened against other currencies in 2008-2012, even as the dollar's fundamentals continued to deteriorate. In reality, all fiat currencies are in trouble.

But the U.S. dollar in particular, is at risk of a deliberate, globally coordinated devaluation as a last-ditch effort to stave off the financial crisis. By declaring the dollar to be "worth less," all debtors (including the government) would be in a stronger position to service an otherwise impossible debt structure in an environment of deflating asset values.

Interestingly, Federal Reserve Chairman Ben Bernanke himself spoke of this scenario in recent testimony before Congress:

"…*it's worth noting there have been times when exchange rate policy has been an effective weapon against deflation. A striking example from U.S. history is Franklin Roosevelt's 40-percent devaluation of the dollar against gold in 1933-34, enforced by a program of gold purchases and domestic money creation. The devaluation and the rapid increase in money supply it permitted ended the U.S. deflation remarkably quickly…the* *episode illustrates that monetary actions can have powerful effects on the economy, even when the nominal interest rate is at or near zero, as was the case at the time of Roosevelt's devaluation."*

The end of the dollar and the rise of a global currency (or globally controlled currencies), may be the ultimate outcome of the next phase of dollar depreciation.

Consider:

1. Economist Joseph Stiglitz says a "global reserve currency" taking the place of the dollar would alleviate the financial crisis.

2. French president Nicolas Sarkozy has called for "New World Governance." He remarked, "The present crisis must incite us to re-found capitalism on the basis of ethics and work. Self-regulation, as a way of solving all problems, is finished. Laissez-faire is finished. The all-powerful market that always knows best is finished."

3. Bloomberg recently reported, "European Central Bank council member Ewald Nowotny said a tri-polar global currency system is developing between Asia, Europe and the U.S., and that he's skeptical the U.S. dollar's centrality can be revived."

4. Shi Jianxun, a professor at Shanghai's Tongji University, wrote in the Chinese state newspaper People's Daily, "The U.S. dollar is losing people's confidence. The world, acting democratically and lawfully through a global financial organization, urgently needs to change the international monetary system based on U.S. global economic leadership and U.S. dollar dominance."

5. The BRIC countries (Brazil, Russia, India, and China) have formed a new group to coordinate their interests in the global economy.

6. On Oct. 28, 2008, Russian Prime Minister Vladimir Putin proposed an alliance with China in which the two countries use their own currencies in bilateral trade, thus rendering U.S. dollar pricing/settling unnecessary.

7. Thailand's Deputy Prime Minister, Olarn Chaipravat, recently told Bloomberg News that Asian nations were urging "China to consider whether or not China would open up its banking system and allow the

strongest currency in the world, which is the Chinese yuan, to be the rightful and anointed convertible currency of the world."

8. London Telegraph business editor Ambrose Evans-Pritchard warns the International Monetary Fund may resort to creating its own currency to fund the ever-growing demand for bailouts. He writes, "The International Monetary Fund may soon lack the money to bail out an ever growing list of countries crumbling across Eastern Europe, Latin America, Africa, and parts of Asia, raising concerns that it will have to tap taxpayers in Western countries for a capital infusion or resort to the nuclear option of printing its own money."

9. Gold analyst Bob Moriarty said in an interview with The Gold Report in November, "The Middle East has already started to talk about not wanting to use the U.S. dollar any more in currency transactions. It's too dangerous. So we're a lot closer to a default than anybody in government wants to admit."

Although it is impossible to predict when or to what extent even the U.S. currency will be

De-valued, it is possible to prepare for such an event now. Waiting until after it happens, when there is extreme panic, will be far too late.

Truth is, there is a decades long plan to replace the U.S. dollar with the future North American Union's own "Amero" (for the "Americas" – Canada, America, Mexico – do a search of your own and see for yourself). Target date is 2012. This is a similar move by *"the powers that be"*, of which Mr. Soros is one of these powers, as to their creation of the "European Union's" own Euro in 1999. Think it can't happen here? We'll see. It all starts as "free trade" and "protectionism" – www.spp.gov. It pays you dividends to see the *BIG* picture, or to at least be aware of the possibilities outside the "norm"! There is also speculation about a ***"world currency"*** in the making. Either way – ***We'll trade it!***

The "Illuminati" control the International Monetary Fund, World Bank, and World Trade Organization, as well as the Bank of International Settlements in Switzerland (the Rothchilds control 85% of *all* money through the BIS, as the Queen's bankers and money managers). They also have plans for a new "world currency" that has already been minted, as well as millions of *"world cash cards"* that have already been made in Salt Lake City, Utah (for a future "cashless" Orwellian society)! Look it up. This isn't intended to be a "political" forum, so I'll mention just a few other names of the "controllers" – you probably already know them too…Bush Sr., Kissinger, Soros, Rockefeller, the Vatican, Goldman Sachs (when they "pay" fines, they are really paying it back to themselves through a secret, back-door system that they belong to!).

In July 2009, Russian President Dmitry Medvedev pulled out a <u>sample coin</u> for the new ***"united future world currency"*** from his pocket at the G-8 meeting, to show his support for a new reserve currency.

In September 2009, the UN wrote a report that called to <u>replace</u> the U.S. dollar with an *artificial currency* in global trading. They wrote, "Replacing the dollar with an artificial currency would solve some of the problems related to the potential of countries running large deficits and would help stability."

What does this mean to you and me as currency traders? Reserving personal political judgments about it all, it means to **<u>fade the U.S. Dollar long term</u>**. And to realize it is being manipulated to its demise in the shorter term, by Bernanke and Obama and their puppet masters, with the monetary printing presses running wild, concurrently ***inducing inflation and a de-valuation of the U.S. Dollar*** (on 3-26-06 the "Fed" stopped publishing M3 reports, which measured the U.S. Dollar money supply). *Be a "trend" and "reversal" trader, with the final outcome always in the back of your mind...a worthless paper "fiat" dollar!*

A modern example of inflation can be seen in Zimbabwe. Inflation got so out of hand that, for example, if an investor had $10,000 worth of investments in Zimbabwe, that investment would have been worth less than $1 in 15 days. While this is an extreme example, it illustrates the point: even a slow deterioration of an investment from inflation is avoided by major investors. A country with inflation higher than return on investment will be avoided by investors, which will lessen the demand for that nation's currency.

After a terrible couple of years of weakness against the Euro, the U.S. Dollar is rising again (5-2010), as the Euro is now being manipulated over the “crisis” in Greece and the bailout process (they can thank Goldman Sachs) – making it weak against the U.S. Dollar and other currencies as well. The point is the Golden Rule - “he who owns the gold (and prints the money), makes the rules.” And the rules are being changed – so pay attention.

However, it’s the same old story and end result everywhere – a “debt crisis” is engineered by the power brokers, who cry panic, who then bail themselves and their buddies out, make it out to be the “people’s” fault somehow, someway (feel really, really guilty now), then the “only” solution is to create further “fiat” funny money, “tax” the innocent people to death and make *them* pay, AND make them work harder and retire later! Where oh where has all the bail-out money gone? The treasury looters and the financial pirates win again. And “the people” are stuck with a never-ending debt load that can never be re-paid, by design, and collapsing economies and currencies and inflation are the results. Go figure. ***This is why being an “in-the-know” forex currency trader is a MUST for your own future financial survival!***

Free Report #16

You’re Being Hit With A Secret Government “Hi Tax.”

Why You Haven’t Heard Of This Tax Until Now…

And What You Can Do About It!

You probably haven't heard of the “Hi Tax” before. I bet 99.9% of Americans haven't. And there's a simple reason for that: The “Hi Tax” isn't your typical tax - it's an “indirect” tax - which means our government keeps it somewhat hidden from public view.

Unlike direct taxes, which are 100% transparent (whether you think so or not), our government isn't obligated to announce this kind of tax in the same manner. That's why you won't see this tax itemized on any sales receipts, but you'll still pay it anyway.

I'm willing to bet that's the reason governments like using this kind of tax so often:

It's nearly invisible to the naked eye, and it's one of the most powerful ways the government can raise cash when it needs to.

You see, indirect taxes like the “Hi Tax” help governments collect revenue on practically everything you can think of -- like bread, milk, gas, electricity, water, medicine, cars, and real estate... but without the “in-your-face” overload of listing the “tax” amount on the sales receipt.

And that's exactly why I think the U.S. government is so desperate to launch the “Hi Tax” right now.

As painful as it will be, the new “Hi Tax” could be America's only ticket out of the debt crisis...

Why The “Hi Tax” Is The U.S. Government's Only Option To Pay Off its $13.2 Trillion Debt

Our country is facing its worst debt in history…

Unfortunately, the latest monthly report coming out of the Department of Treasury underscores the mess we're in...

•	**We've now run a deficit for 20 consecutive months -- the longest stretch of red ink on record**
•	**For this year alone, the deficit is on pace to hit $1.5 trillion -- a +780% increase in just three years**
•	**As a percentage of our GDP, our 2010 deficit is the worst it's been in over 50 years**

Our national debt currently stands at $13.2 trillion and is slipping $3.9 billion deeper in the hole every day.

By the time you finish reading the next paragraph we'll have saddled our kids and grandkids with another $1 or $2 million that must be repaid.

The problem is, our leaders aren't interested in paying the tab -- they're still throwing money around like drunken sailors.

Over the past two years, our debt to GDP ratio has rocketed +33% -- from 69% to 92%.

<u>Without a dramatic economic surge to boost revenues, U.S. debt could exceed GDP within the next 2 or 3 years.</u>

If that happens, we'll be looking at an instant replay of Greece. (They ran up a mountain of debt equivalent to 125% of their GDP before collapsing.)

And that's exactly where the “Hi Tax” comes in -- it's the government's last resort for fending off a complete economic collapse.

We see it again and again...

France deliberately created its version of the “Hi Tax” to ease the burden of debts amassed during World War I.

Argentina imposed its version of a “Hi Tax” to cover its foreign debt interest and $2 billion in annual deficits.

Hungary's version of a “Hi Tax” proved to be the most extreme form of taxation the world has ever seen to pay off government debt.

Today, the “Hi Tax” is the single best way -- if not the ONLY way -- the United States can fund all its reckless spending.

Warren Buffett seems to agree...

*“These once unthinkable dosages of government spending will most certainly bring on unwelcome after effects. Their precise nature is anyone’s guess, though one likely consequence is an onslaught of inflation...” - the “Hi Tax” (<u>**h**</u>igh <u>**i**</u>nflation tax).*

But here's the problem: while programs like the “Hi Tax” line the government's coffers with cash, they have proven to be a nightmare for taxpayers like you and me.

And mark my words -- if history is any guide, this new “Hi Tax” is going to devastate most Americans.

Prices for everything from bread and milk to gas and medicine are going to <u>skyrocket.</u>

The “Hi Tax” Could Mean +200% Increases
in the Cost of Bread, Milk, Gas, Meds -- You Name it!

If you haven't guessed it by now, the “Hi Tax” I've been talking about is my way of referring to the “Hidden Inflation Tax” (a.k.a. inflation) that our children and grandchildren will be paying for decades to come.

While this indirect tax won't be identified in any IRS code, the net effect on your bottom line is the same as any direct tax: it's more money out of your pocket.

Consider what happened when Argentina's debt got out of control in the 1980s -- much like America's is today: Prices TRIPLED in one month alone.

In January of 1994, prices in debt-ridden Yugoslavia increased an average of 64% a day.

In November of 2008, prices in Zimbabwe rose an average of 98% a day.

And in Hungary, during the height of its debt crisis, prices shot up an average of 207% a day. In other words, prices doubled every 15 hours.

Today, the only way the U.S. can make a dent in its $13 trillion debt load is by devaluing the dollar and spurring inflation in the same way other governments before us have.

The idea is that a devalued dollar will trigger two trends:

1.	**U.S. products will become cheaper to foreign buyers. When that happens, we'll see a surge in our country's exports (and an influx of cash into America)**

2.	**Foreign products will become more expensive to Americans. We'll spend less of our money on imported products (and more of it on domestic, American-made products)**

The end result is a trade surplus that could chip away at our national debt.

That's the idea anyway. And that's exactly why the government is purposely devaluing the dollar as I write this.

Leaving interest rates at zero is a good start... running the printing presses overtime will finish the job.

Make no mistake: what the U.S. government is doing is an indirect form of <u>taxation</u>.

Whether the government takes a 25% upfront cut from each dollar of your paycheck... or simply devalues that dollar to the point where it can only buy $.75 worth of products, the end result is the same.

Fortunately, history has shown time and time again that a small group of investments -- the “loopholes” I mentioned earlier -- have not only proven to survive a weak dollar and high inflation, but they've delivered significant returns as well.

Some of these investments are designed to simply protect and safeguard your wealth when the dollar tumbles -- others are designed to make you a lot of money when inflation kicks into overdrive. Consider...

The Last Time The U.S. Launched an Inflation-Creation Program This Big, These Investments Returned +315%... +619%... +739%... +1,458%... even +1,866%

The dollar has lost about -7.5% of its value over the past five years, but these metals and commodities are providing a nice safe-haven...

Gold is up +181%	**Sugar is up +89%**
Silver is up +155%	**Wheat is up +80%**

Platinum is up +72%	**Soybeans are up +44%**
Palladium is up +134%	**Corn is up +59%**
Copper is up +97%	**Coffee is up +63%**
Oil is up +35%	**Cotton is up +44%**

If these investments have jumped +35% to +180% when the dollar hasn't even lost -10% of its value, just imagine how much money they could make you if the dollar tanks -25% to -35% in the coming years as I expect it will from the "hidden inflation tax."

If I'm right, these investments will return +315% to +1,866%... easy.

It's happened before...

Back in March of 1980, inflation had reached nearly +15% in the United States. You probably remember. Times were tough. The cost of goods and services had soared, and many people were wondering how the story would end.

The irony is, a whole other group of Americans were capitalizing on the opportunity and profiting hand-over fist...

Oil gained +1,866%
Gold gained +1,458
Silver gained +739%
Stamps gained +619%
Diamonds gained +315%
*Data: June 1970-1980 www.DailyReckoning.com

I think some of the investments above (and a few others not listed here) are going to make fortunes for anyone who acts swiftly.

You see... much like today, back in the 1970s, government spending was out of control.

The difference is -- and why I think these investments could do even BETTER this time around -- is that we're in a far WORSE situation today.

Take a look at the "Deja 1976" table. It happened before, and it's happening again…

"Déjà 1976"

	1976	1981	January 1st, 2009	*2014
Oil	$11.16	$36	$46.17	$148
Gold	$105	$600	$874	$4994
Inflation	4.86%	11.83%	4.28%	10.42%
30-yr Yld.	7.2%	14.68%	4.35%	8.86%
Dollar	$1	$1.55 (Lost 35.5%)	$1	$1.55
Dow	1000.4	824	9034	7444

During the 70s, America's debt to GDP ratio peaked at 35.7%.

Today, we're at 92% -- a +157% increase.

Right now is the time to act if you want to cash in on the coming inflation boom, because at the rate our government is spending money, our national debt is going to exceed our GDP in the next two to three years.

U.S. Debt to GDP Ratio in Dangerous Territory -- Much Worse Than in the 1970's…

Year	GDP (Trillions)	Debt (Trillions)	Debt to GDP (Ratio)
2005	$ 12.6	$ 7.9	63%
2006	$ 13.4	$ 8.5	63%
2007	$ 14.1	$ 9.0	64%
2008	$ 14.4	$ 10.0	69%
2009	$ 14.3	$ 11.9	83%
2010*	$ 14.4	$ 13.2	92%

When that happens, the printing presses will be on fire and we could watch inflation take off to a level like nothing the United States has ever seen before.

That's why it's so important you act now. (*Data from July 20, 2010 Sources: www.TreasuryDirect.gov, www.MeasuringWorth.com, www.USDebtClock.org)

There are a few simple but specific ways you can play the coming inflation boom for big profits; buy commodities, i.e. buy gold and silver, food and clothing; and ***trade forex!***

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http://www.info-forex.com Forex information, news, Pivot Point and Fibonacci calculators.

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