The Wyckoff's VSA Methodology

Trading in harmony with smart money!

Course Book + Illustration Book

"There are those who think they are studying the market—what all they are doing is studying what someone has said about the market . . . not what the market has said about itself."



Richard DeMille Wyckoff
1873-1934

"The market is made by the mind of man, and all the fluctuations of the market and all the various stocks should be studied as if they were the result of one man's operations. Let us call him the Composite Operator, who, in theory, sits behind the scenes and plays a stock to his advantage."

~Richard D Wyckoff~

"As Charles H. Dow used to say: "The public rarely sees values until they are pointed out,"— which means that the public does not lead, but is led in speculation."

- Richard Wyckoff

Written by Muhammad Uneeb

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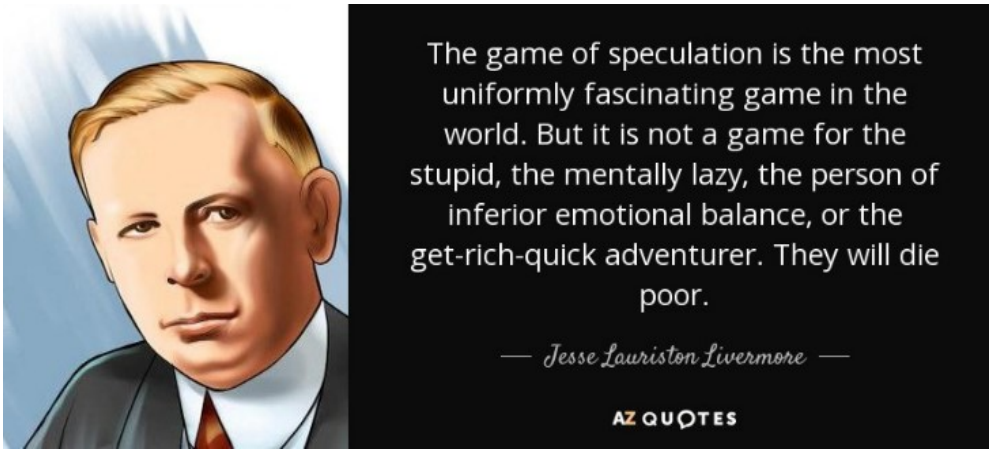
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Preface

I started my trading journey back in 2011. Since its inception I have been switching from one system to another in the hope to acquire Holy Grail of trading FOREX. My system hopping phase would go like this:

I would pick up one system, back test it and after getting some successful back test results, I would go and trade it on live account. Unfortunately, the system would not perform well on a live account and I would end up blowing up my trading account. Then again I would transit to another system and the entire process was repeated again. This process was repeated until 2016 for 5 years without getting any real success in trading.

I always pondered what is going wrong! Why my strategies are not working? What is the missing piece of the puzzle in my trading? I built a very highly effective money management and risk management plan and implemented it in my trading. I saw a dramatic change in my trading results but still I was not convinced with my trading performance until I reached one point where I decided to give up trading and do something better in my life. I have tried and perfected many systems over time including Harmonics Patterns Trading, Elliot Waves Trading, Price Action Trading and even incorporated fundamental analysis in my trading. Even then the problem persisted which lead me to the system hopping phase over and over again.

Until one evening, I found out about the volume spread analysis which helps in tracking the smart money activity and helps in understanding the market manipulation areas. This attracted me so much that I started reading extensively on this subject and carried out extensive amount of research. The efforts I put into to process finally paid off and I finally reached my aha and eureka moment in trading using VSA. Having perfected this system, I decided to write down an easy to understand comprehensive guide on this subject and deliver my knowledge to others. I do not guarantee success by trading this methodology. However, if you really put in efforts to understand this methodology and practice extensively then there is no excuse of not making money consistently by trading FOREX.

I hope you will enjoy reading this book and I strongly believe this book will change your trading game forever and embark you on a successful consistently profitable trading journey!

I have written enough about the transition to the VSA system. Let's discuss the actual development process of the VSA.

I just want to discuss how Wyckoff's VSA methodology was developed in 2 years' time by me. I was very disappointed by some of the courses and information available online. It is so misleading that it does not teach anything of value. After being frustrated, I decided to develop my own approach finally.

The first book which takes the credit in the development was Japanese Candlesticks charting techniques by Steve Nison. His book is without a shade of doubt, the best book available on this subject as Steve Nison was one of the developer of Candlestick charting.

The second series of books I read were on technical analysis. They were as follows:

1) The Art and Science of Technical Analysis by Adam Grimes

2) Technical Analysis of the Financial Markets by John J Murphy

3) Technical Analysis Explained by Martin J Ping

These book are the best technical analysis contents available so far.

The Third Set of Books I read were on chart patterns. These books include:

1) Getting Started in Chart Patterns by Thomas Bulkowski

2) Trade Chart Patterns like pro by Suri Duddella

Then I progressed towards the price action in general and the best book in this category for me is this book:

1) The Ultimate Price Action Trading Guide by Mangi Madang

2) The Price Action Course by R.Kay

Then the last phase was to read extensively on VSA. I read following books on this subject:

1. Master the Markets by Tom Williams

2. Trading in the Shadow of Smart Money by Gavin Holmes

3. The Complete Guide to Volume Price Analysis by Anna Coulling

All these books and a lot of practice helped me in developing my own Wyckoff's VSA approach. I have practised my concepts by back testing and forward testing for more than 10,000 hours. Understanding that Trading is not an easy way to become rich, I have reflected my efforts in this book and my video course so that you develop correct perspective and expectations in trading. Once you have developed the right process oriented mind-set and have stopped believing in the marketing gimmicks of the industry painting a false image of trading being an easy way to make money, you have set yourself a part from others and made yourself ready to hunt for money professionally.

Provided that you tuned your mind-set's frequency with mine, I will drop you a warm welcome message:

Welcome to the hardest game in the world. Unfortunately, you're playing with some of the sharpest, fastest, most intelligent, well informed, stubbornly irrational and in many cases, unethical minds in the world.

You're up against the computer that can react faster than you.

The trader who has more experience than you.

The fund that has more money than you.

The insider that has more information than you.

The others that will misinform you.

The inner voice that will do it's best to undo you.

So, leave all your dreams of making quick and easy money, behind. The first aim is survival. Your absolute first goal is to learn how to stay in the game.

You can only do this by mapping the territory.

By understanding how the enemy thinks and acts.

By having a solid game plan.

And by picking your battles very, very carefully.

Kind regards,

Muhammad Uneeb.

Introduction to Forex

• Forex stands for Foreign Exchange

• Forex Trading is the speculation of the change in exchange rates of the currency pairs.

• Exchange Rate consists of two parts: The Base Currency and The Quote Currency

Base Currency/Quote Currency = Exchange Rate

Let's consider an example:

In EUR/USD, EUR is Base Currency and USD is Quote Currency

In USD/JPY, USD is Base Currency and JPY is Quote Currency

As a general rule, Base Currency is the left hand side currency of currency pair and Quote Currency is the right hand side currency of the currency pair.

Let's consider one more example:

EUR/USD = 1.19000

Here 1.19000 is the exchange rate of EUR/USD and we read it like this:

EUR/USD = 1.19000

1 EUR = 1.19000 USD

• Here is another rule to consider in forex:

Base Currency is directly proportional to the Exchange Rate. This means that when Base Currency is strengthening then the exchange rate will increase and when the base currency is weakening then the exchange rate will decrease.

Quote Currency is inversely proportional to the exchange rate. When the Quote Currency is strengthening then the exchange rate will decrease and when the Quote Currency is weakening then the exchange rate will increase.

• The unit of measurement to express the change in value between two currencies is called a “pip.” If EUR/USD moves from 1.1050 to 1.1051, that .0001 USD rise in value is ONE PIP. A pip is usually the last decimal place of a quotation.

• Points is the smallest unit of measurement of exchange rate. Point has a unique relation with pip. This relation is as follows: Points = Pip * 10. 2 Pips = 20 Points, 3 Pips = 30 Points and so on.

In the past, spot forex was only traded in specific amounts called lots, or basically the number of currency units you will buy or sell.

The standard size for a lot is 100,000 units of currency, and now, there are also a mini, micro, and Nano lot sizes that are 10,000, 1,000, and 100 units respectively.

Standard Lot = 100,000 units

Mini Lot = 10,000 units

Micro Lot = 1,000 units

Nano Lot = 100 units

As you may already know, the change in currency value relative to another is measured in “pips,” which is a very, very small percentage of a unit of currency’s value.

To take advantage of this minute change in value, you need to trade large amounts of a particular currency in order to see any significant profit or loss.

Let’s assume we will be using a 100,000 unit (standard) lot size. We will now recalculate some examples to see how it affects the pip value.

USD/JPY at an exchange rate of 119.80: (.01 / 119.80) x 100,000 = $8.34 per pip.

USD/CHF at an exchange rate of 1.4555: (.0001 / 1.4555) x 100,000 = $6.87 per pip.

In cases where the U.S. dollar is not quoted first, the formula is slightly different.

EUR/USD at an exchange rate of 1.1930: (.0001 / 1.1930) X 100,000 = 8.38 x 1.1930 = $9.99734 rounded up will be $10 per pip.

GBP/USD at an exchange rate of 1.8040: (.0001 / 1.8040) x 100,000 = 5.54 x 1.8040 = 9.99416 rounded up will be $10 per pip.

Your broker may have a different convention for calculating pip values relative to lot size but whichever way they do it, they'll be able to tell you what the pip value is for the currency you are trading is at that particular time.

As the market moves, so will the pip value depending on what currency you are currently trading.

• Spread is the difference between bid and ask prices. Bid Price is the markdown price on the exchange rate done by the broker. You sell at the bid price. Ask price is the mark up price on the exchange rate done by the broker. You buy at the ask price. Spreads are the way the brokers make money from each trade execution done by the trader. You can also understand spread as the operational cost of the trade execution. Brokers also charge commission per trades besides charging spreads.

Let's consider an example:

Let's assume you are trading on EUR/USD currency pair and the spreads on this pair is 1.5 pips at the moment. So this means when you execute buy order on the current market price, your buy order will not be executed on the current market price. Instead, it will be executed at 1.5 pips above the current market price. Similarly, when you execute sell order on the current market price, your sell order will not be executed on the current market price. Instead, it will be executed at 1.5 pips below the current market price.

• Forex Market is the largest financial market in the world with average daily turnaround volume of 5 Trillion USD. This means that daily 5 Trillion USD are exchanged, traded and transacted in Forex. Forex Market is decentralized market which means that it is not registered on any particular stock exchange. Since forex market is decentralized, it has no real volumes. The only volume we have is tick volume which is proxy to real volumes. Statistics and studies show that Tick Volumes are 90% correlated to the real volumes.

• Forex market is driven by the participation of Buyers and Sellers. Buyers and Sellers activity creates imbalance between supply and demand which in fact moves the market. If there are more buyers than sellers at any given time then it means that Demand is greater than Supply and so the market will move in the upward direction. If there are more sellers than the buyers then it means Supply is greater than the Demand and so the market will move in the downward direction.

• Forex Market is traded 24/5 (24 Hours a day and 5 days a week). The market is closed during Weekends, Bank Holidays and Special Holidays (For instance: Easters, Thanks Giving Day, Christmas, Labour Day, etc.)

• Going long means anticipating the increase in price or placing buy orders.

• Going short means anticipating the decrease in price or placing sell orders.

• Participants of Forex Trading:

1) Investment Banks

2) Commercial Banks

3) Hedge Funds

4) Governments

5) Central Banks

6) Tourists and Travellers

7) Commercial Companies

8) Money Exchangers

9) Retail Traders

10) Retail Brokers

11) Institutional Brokers

• If you want to learn more about forex trading then visit the links below:

1) https://www.babypips.com/learn/forex/preschool

2) https://www.babypips.com/learn/forex/kindergarten

3) https://www.babypips.com/learn/forex/elementary

4) https://www.babypips.com/learn/forex/undergraduate-junior

5) https://www.babypips.com/learn/forex/undergraduate-senior

• Which Currency Pairs to Trade:

Majors:

1. EUR/USD
2. GBP/USD
3. USD/JPY
4. NZD/USD
5. AUD/USD
6. USD/CAD
7. USD/CHF
8. EUR/GBP
9. EUR/JPY
10. EUR/CHF
11. GBP/JPY
12. GBP/CHF
13. CHF/JPY

Minors:

1. EUR/AUD
2. EUR/NZD
3. EUR/CAD
4. GBP/AUD
5. GBP/NZD
6. GBP/CAD
7. NZD/JPY
8. AUD/JPY

• Which Timeframes to trade: 5 Mins, 15 Mins, 30 Mins, 1 Hour, 4 Hours, and Daily.

- Forex Market Hours:

Summer (approx. April – October)

TIME ZONE	EDT	GMT
Sydney Open Sydney Close	6:00 PM 3:00 AM	10:00 PM 7:00 AM
Tokyo Open Tokyo Close	7:00 PM 4:00 AM	11:00 PM 8:00 AM
London Open London Close	3:00 AM 12:00 PM	7:00 AM 4:00 PM
New York Open New York Close	8:00 AM 5:00 PM	12:00 PM 9:00 PM

Winter (approx. October – April)

TIME ZONE	EST	GMT
Sydney Open Sydney Close	4:00 PM 1:00 AM	9:00 PM 6:00 AM
Tokyo Open Tokyo Close	6:00 PM 3:00 AM	11:00 PM 8:00 AM
London Open London Close	3:00 AM 12:00 PM	8:00 AM 5:00 PM
New York Open New York Close	8:00 AM 5:00 PM	1:00 PM 10:00 PM

Trading Psychology

Forex traders have to not only compete with other traders in the forex market but also with themselves. Oftentimes as a Forex trader, you will be your own worst enemy. We, as humans, are naturally emotional. Our egos want to be validated—we want to prove to ourselves that we know what we are doing and we are capable of taking care of ourselves. We also have a natural instinct to survive. All of these emotions and instincts can combine to provide us with trading successes every now and then. Most of the time, however, our emotions get the best of us and lead us to trading losses unless we learn to control them. Many Forex traders believe it would be ideal if you could completely divorce yourself from your emotions. Unfortunately, that is next to impossible, and some of your emotions may actually help improve your trading success. The best thing you can do for yourself is learn to understand yourself as a trader. Identify your strengths and your weakness and pick a trading style that is right for you.

In this section, you will learn about the following four psychological biases that may be affecting your trading results and what you can do to overcome them:

• Overconfidence bias

• Confirmation bias

• Anchoring bias

• Loss aversion bias

Overconfidence Bias

Overconfidence bias is an over-inflated belief in your skills as a Forex trader. If you ever find yourself thinking to yourself that you have got everything figured out, that you have nothing more to learn and money is yours for the taking in the forex market, you probably suffer from an overconfidence bias.

Dangers of Overconfidence

Overconfident traders tend to get themselves into trouble by trading too frequently or by placing extremely large trades as they go for the home run. Inevitably, an overconfident trader will end up either trading in and out and in and out of trades—churning the trader's account—or risking too much on the one trade that goes bad and wipes out most of the trader's account.

Are You Overconfident?

If you want to know if you have any overconfidence tendencies, ask yourself, "Have I ever jumped right back into a trade I had just been stopped out of not because I saw another entry opportunity but because I couldn't believe I was wrong?" You can also ask yourself, "Have I ever put more on a trade than I normally would because I was just sure this trade was going to be the one?" If you have, you need to be aware of those tendencies

Overcoming Overconfidence

The best way to overcome an overconfidence bias is to establish a strict set of risk-management rules. These rules

should at least cover how many trades you will allow yourself to be in at one time, how much of your account you are willing to risk on any one trade and how much of your account are you willing to lose before you take a break from trading and re-evaluate your trading strategy. By limiting the number of trades you are willing to be in and the amount of risk you are willing to take, you can spread your risk out evenly over your portfolio.

Anchoring Bias

Anchoring bias is a propensity to believe that the future is going to look extremely similar to the status quo. When you anchor yourself too closely to the present, you fail to see the dramatic changes that are possible as currency pairs fluctuate and the underlying fundamentals shift.

Dangers of Anchoring

Anchored traders tend to get themselves into trouble by convincing themselves that the current trend will never end and a reversal in the economic strength of a particular country is next to impossible. Alas, they become emotionally attached to the previous trend of a currency pair, and they continue to place trades that go against the new, current trend. With each trade, they lose more and more money because they are bucking the trend.

Are You Anchoring?

If you want to know if you have any anchoring tendencies, ask yourself, "Have I ever lost money because I couldn't accept that the trend had ended?" If you have, you need to be aware of that tendency.

Overcoming Anchoring

The best way to overcome anchoring is to look at multiple time frames on your charts. If you usually trade on the hourly charts, take a look at the daily and weekly charts every now and then to see where some of the longer-term levels of support and resistance are and what the longer-term trends look like. You should also take a look at the shorter-term charts to see when the shorter-term trends are reversing. Broadening your perspective will help you avoid anchoring yourself to any one point.

Confirmation Bias

Confirmation bias is a propensity to look only for the information that confirms the beliefs that you already have. For instance, if you believe the EUR/USD is going to go up, you will look for the news, the technical indicators and the fundamental factors that support your belief.

Dangers of Seeking Confirmation

Traders who over-actively pursue confirmation of their beliefs tend to miss key warning signs that would normally have protected them from unnecessary losses. In an attempt to build a case for their beliefs, traders miss the facts. Ultimately, this leads to them fighting the trend and losing money with each ill-conceived trade.

Do You Seek Confirmation?

If you want to know if you have any confirmation bias tendencies, ask yourself, "How often do I look for signs that I may be wrong in my analysis?" If your answer is rarely or never, you may be a confirmation seeker, and you need to be aware of those tendencies.

Overcoming Confirmation Bias

The best way to overcome confirmation bias is to find someone, or a group of people, you can talk to about your trading. Hopefully the person, or people, you talk about your trading with will not always agree with you. Talking with traders with diverse perspectives and ideas will help you look at your trades from multiple angles. Sometimes you will strengthen your convictions by talking with other traders. Other times, talking with your trading partner will cause you to change your mind. Keeping an open mind will help you catch new moves and avoid holding on too long to past beliefs.

Loss Aversion Bias

Loss aversion bias is based on the theory that the pain that is caused by losing $1,000 is greater than the joy that comes from gaining $1,000. In other words, fear is a more powerful motivator than greed.

Dangers of Loss Aversion

Traders who fear losses are much more likely to hold onto losing positions than traders who are able to accept short-term losses and move onto other, more-profitable trades. Holding onto losing positions jeopardizes the stability of your portfolio by not only incurring losses but also keeping you out of better trades.

Do You Fear Losses?

If you want to know if you have any loss aversion tendencies, ask yourself, “Have I ever held onto a losing trade past the point where I knew I should have gotten out because I hoped the currency pair would turn around and wipe out my losses?” If you have, you need to be aware of those tendencies.

Overcoming Loss Aversion

The best way to overcome a loss aversion bias is to trade with physically set stop loss orders. Many traders tell themselves that they will trade with a mental stop loss—a stop loss level that they think about and promise themselves they will act on if the currency pair ever reaches it. All too Often, however, traders fail to act on their mental stop losses. They let their emotions get in the way, and they start rationalizing their choice to stay in the trade until it turns around. As soon as you

enter a trade, you should set your stop loss order. Take your emotions out of the picture.

Fear of Missing Out

FOMO stands for "Fear of Missing Out" and a FOMO trade is simply a trade you enter out of fear of missing the move. When a stock experiences sudden volatility, it can make some traders very anxious. You may feel like you are faced with an opportunity that will not present itself again, and, of course, you don't want to miss the move. Due to the high volatility, you are forced to make a fast decision: do I enter or leave it alone?

Sensory Derived Bias:

We pull information from around us to form an opinion or bias and this allows us to function and learn, in many cases. However, we must realize that, while we may believe we are forming an opinion based on factual evidence, often we are not. If a trader watches the business news each day and forms an opinion that the market is going higher, based on all the available information, he may feel he came to this conclusion by stripping away the media personnel's opinions and only listening to the facts. However, this trader still may face a problem: When the source of our information is biased, our own bias will be affected by that. Even facts can be presented to give credence to the bias or opinion, but we must remember there is always another side to the story. Furthermore, constant exposure to a single opinion or viewpoint will lead individuals to believe that that is the only practical stance on the subject. Since they are deprived of counterevidence, their opinion will be biased by the available information.

Avoiding the Vague:

Also known as fear of the unknown, avoiding what may occur, or what is not totally clear to us, prevents us from doing many things and can keep us locked in an unprofitable state. While it may sound ridiculous to some, traders may actually fear making money. They may not be aware of it consciously, but traders often worry about expanding their comfort zone, or simply fear that their profits will be taken away through taxes. Inevitably, this may lead to self-sabotage. Another source of bias may come from trading only in the industry with which one is most familiar, even if that industry has been, and is predicted to continue, declining. The trader is avoiding an outcome because of the uncertainty associated with the investment.

Another common tendency relates to holding onto the losers too long, while selling the winners too quickly. When prices fluctuate we must factor in the magnitude of the movement, to determine if the change is due to noise or is the result of a fundamental effect. Pulling out of trades too quickly often results from ignoring the trend of the security, as investors adopt a risk-averse mentality. On the other hand, when investors experience a loss, they often become risk seekers, resulting in an over held losing position. These deviations from rational behaviour lead to irrational actions, causing investors to miss out on potential gains, due to psychological biases.

Tangibility of Anticipation:

Anticipation is a powerful feeling. Anticipation is often associated with an "I want" or "I need" type of mentality. What we anticipate coming is some time in the future, but the feeling of anticipation is here now and it can be an enjoyable emotion. It can be so enjoyable, in fact, that we make feeling anticipation our focus, instead of achieving what it is we are anticipating in the first place. Knowing that a million dollars is going to show up on your doorstep tomorrow would create a fantastic feeling of excitement and anticipation. It is possible to become "addicted" to this feeling and thus put off taking payment.

While easy money delivered to the door is more than likely to be grabbed by the eager homeowner, when things are not quite as easy to come by, we can fall into using the feeling of anticipation as a consolation prize. Watching billions of dollars change hands each day, but not having the confidence to follow a plan and take a chunk of the money, can mean we subconsciously decided that dreaming about the profits is good enough. We want to be profitable, but "wanting" has become our goal, not profitability.

What to Do About It

Once we are aware that we may be affected by our own psychology, we realize it may affect our trading on a subconscious level. Awareness is often enough to inspire change, if we do in fact work to improve our trading.

There are several things we can do to overcome our psychological roadblocks, beginning with removing inputs that are obviously biased. Charts don't lie, but our perceptions of them may. We stand the best chance of success if we remain objective and focus on simple strategies that extract profits from price movements. Many great traders avoid the opinions of others, when it comes to the market and realize when an opinion may be affecting their trading.

Knowing how the markets operate and move will help us overcome our fear, or greed, while in trades. When we feel we have entered unknown territory where we don't know the outcome, we make mistakes. However, if we have a firm understanding, at least probabilistically, of how the markets move, we can base our actions on objective decision making.

Finally, we need to lay out what we really want, why we want it and how we are going to get there. Listen in on the thoughts that run through your head right when you make a mistake, and think about the belief behind it—then work to change that belief in your everyday life.

The Problem of System Hopping or Switching

One of the major stumbling blocks all traders face at some time is the nasty habit of switching systems whenever they suffer a string of losses.

It was certainly a problem for me in the past, borne out by the many excellent strategies and systems on this site, that I tried out at one time or another, only to move on when the inevitable losing streak arrived.

Why do we do this? It comes down to what is known as Regency Bias. This concept describes the way we feel about our current trading.

If we've just had a string of wins, we are highly likely to consider ourselves Gun Traders who can do no wrong! In this frame of mind we are more likely to stick with the current system we are using.

However, if we have a string of losers, our frame of mind changes radically and rapidly. Doubt sets in, compounded by Fear. Our heart rate elevates, we kick ourselves over trading decisions, and above all we begin to question the validity of the system or strategy we are currently employing. We begin to wonder:

"Hey, it's just lost five times in a row, that can't be good! Maybe there's something out there that hardly ever loses?"

So we go on and do our research, choose another system and begin to trade it. At first our suspicions about the last system are confirmed as we rack up a series of wins with the new system. We congratulate ourselves for a wise decision. We are incredibly intelligent for having found this new system that hardly ever loses! Wow, we've really arrived as a trader now.…

And of course, when the inevitable string of losses comes along – as it always does with ANY system – the old cycle of doubt and fear sets in once more and we go

looking for yet another Holy Grail system to trade. We have sadly and pathetically come to resemble a hamster on a wheel, a long fall from the state of grace of Master Trader!

The way to escape from this horrible cycle is a process of:

1) Back testing. What you who are about to test must have shown some kind of promise in back testing. Back testing is a complex concept that's really outside the scope of this post – which concerns itself with the next step in the process – but you must have some kind of confidence that the strategy you're about to test may produce results.

Though back testing is outside the scope of this post, I will say that I usually just rely on a manual, "eyeball" approach these days, as the parameters I use such as pivots, round numbers, support and resistance levels etc. can be easily plotted on past charts.

2) Forward Testing. Otherwise known as live trading, using either a demo account, or preferably a live micro account (generally speaking, live accounts give more accurate and reliable results).

3) Strategy Verification. We do this by logging the results of all our trades, most commonly in an Excel spreadsheet. I have included an example from my own back testing verification below.

4) Trade or Discard. Based on our analysis of the trades logged in the above step, we decide whether to persist with the strategy or not.

Note that sometimes even if a strategy proves to be profitable over the period of testing and verification, we may choose to discard it anyway. For example, if we chose to test the strategy based on a certain time frame that we were able to trade, and now we are no longer able to trade that timeframe, it would be foolish to persist with the strategy.

Another reason for discarding a profitable strategy at this stage is that, though it may have shown a profit, you may judge the return on your effort too poor to continue. This was the case with the strategy depicted in my own trading log below. I've included screenshots of the two relevant Excel spreadsheet tabs.

The strategy was for an automated system I had devised, based around news trading. In some ways it worked quite well. For example, I was able to leave trades in the market overnight (my time) for news events that occurred in the New York

session. Overall, these trades proved profitable, even when I left orders in the market with the automated strategy, just prior to Non-Farm Payrolls data releases.

However, in the end I discarded this strategy because once I had done the 100 trades required to "prove/disprove" the approach, I realised I'd be better off (mostly) if I traded the events manually.

The bottom line is this: never stop trading a strategy just because it's losing. Have some methodology in place that you use with every trade you take, that verifies whether or not the strategy is a loser over the longer term.

Trading psychology tips for beginners

If you're a new trader trying to make sense of forex market movements and making money while you're at it, the whole experience can be exciting and overwhelming at the same time. This is why it is important to work on your trading psychology from the very start of your trading endeavour.

Perhaps one of the most important things to remember when you're starting out is to just take it easy. It can be tempting to try all technical indicators all at once or trade every single top-tier news release out there, but you might run the risk of overdoing it and feeling burned out later on. Stick with what you're comfortable with and just add what you learn along the way.

Another thing to keep in mind is to know yourself. Make sure you come up with a trading strategy that is in tune with your personality and your risk preferences. For instance, if you thrive in fast-paced movements and if you're comfortable with managing many open positions at once, then you could look into scalp trading techniques. On the other hand, if you get easily stressed with quick price movements and would rather just check your charts every now and then, swing trading might be better for you.

Lifestyle considerations must also be taken into account when coming up with a trading strategy so as to not set yourself up for stress or failure. If you are planning on trading part-time while holding on to your day job, then you could look into trading techniques that won't require you to be in front of your trading platform all the time.

Easier said than done is the trading psychology recommendation to stay on top of your emotions. After all, we are human and we can't help but sometimes give in to poor decision-making when our minds are clouded with fear or greed. The trick in

forex trading is to keep an objective mind set to be able to focus on what the market is telling you instead of letting emotions cloud your judgment.

This particular skill takes time to master and even experienced traders can still be guilty of being too emotional, which is why it is also important to constantly remind yourself to isolate these emotions when trading.

Staying disciplined goes hand in hand with trading psychology, as this enables you to stick to your strategy and risk management rules. After all, it can be tempting to deviate from your plan when the markets are going haywire but with the right mind set and discipline, you should be able to focus on the right action steps to take.

Lastly, it is important to note that keeping a trade journal is one of the best ways to work on your trading psychology, and this is a habit that must be started by beginner traders from the very start. This allows you to keep track of your profit and loss, trading decisions, trade strategies, and even the factors that influenced your decisions. In analysing these, you can be able to identify your strengths and build on them while working on your weaknesses.

How to make the most of your Demo Trading

Beginner traders are often recommended to start with a demo trading account before risking real money on a live account. However, there are also many who question whether this step is necessary as demo trading has several stark differences with live trading, particularly in the trading psychology aspect.

Despite that, demo trading is a good way to practice one's newly learned trading skills without the risk of losing real money. It is also an effective method of putting a new trade strategy to the test and monitoring its results before making adjustments. While demo trading does not exactly replicate the emotions and stress involved in live trading, there are several ways to make the most out of this experience.

The main difference in demo trading and live trading is that the latter typically has more pain involved when one loses a trade. Not only did you have a wrong or poorly implemented trade idea, but you also lost real money in the process. When it comes to demo trading, even though there is no real money involved yet, you can try to feel the pain by coming up with real-life penalties when you lose a trade. For instance, you can have a small jar wherein you put a dollar for every lost trade so that you are reminded that trading decisions have a real money aspect tied to it.

Another way to make the demo experience feel more like live trading is to assign grades to each aspect of the trade. You can evaluate your entries and exits, whether you were able to press your advantage or cut your losses, or if you stuck to your risk management rules. Deductions can apply if you gave in to emotions and deviated from your plan in the middle of volatile market movements. From there, you can be more conscious of your decision-making and apply the same kind of self-assessment when you are trading live.

Bear in mind though that the temptation to give in to fear of losing or greed is much stronger when real money is on the line so it is important to master this aspect of trading psychology on a demo level then simply repeat the process even when real money is being traded.

As discussed in the earlier section, it is crucial to keep a trading journal even as you are trading demo. This way you can easily identify your usual mistakes and weaknesses, then be able to work on them before transitioning to live trading. You can list your emotions involved when you make a trade decision or change in plans, then be in a better position to evaluate if you made the proper action or if you just had a panic reaction.

When you are able to take the leap and start trading live, just remember all the lessons you learned in demo trading and don't be too overwhelmed about risking real money. As mentioned earlier, it is crucial in trading psychology to focus on the process and not the profits as you are learning the ropes.

Are you ready to trade real money?

If you think you are finally ready to make the transition from demo trading to having a live account, then you should also be psychologically prepared for it. Not only will you have real money on the line, your emotions might also have a bigger impact on your trading decisions.

A good rule of thumb to remember before going from demo to live is to ensure that you have had a good trading run for at least three months. Of course this time frame can vary depending on how much time you spent learning about trading but it is a reasonable length of time to make sure that you have had a strong grasp of basic trading concepts and are able to make consistent profits. This can also ensure that you've spent a considerable amount of time getting in sync with market movements and that you can hold your own even when real money is at risk.

Another factor to consider is whether or not you've tried various trading styles and found the most appropriate one for you. As mentioned in an earlier section, this has

to do with your personality and lifestyle, as you should be using a strategy that you are comfortable with. When you have found the trading style that suits you, it will make for a smoother transition from demo to live, as you simply have to go for consistent execution instead of having to experiment with different trading techniques with a live account.

To make sure that you will be keeping track of your improvements both in profits and in your trading mind set, you should also have a trading journal up for review when you transition from demo to live. Before forking over your hard-earned cash, it would be a good practice to have a quick review of your trading journal from demo to remind yourself of which aspects of your trading you can still improve on and to take note of the strengths you should play.

Lastly, you can gain enough confidence to carry on with your demo success in live trading if you have the numbers to back it up. Unless you've been able to make consistent gains and have a good expectancy in demo trading, you might just wind up doubting your trade decisions when you start trading live. This is why it is crucial to get your risk management practices right and have rules for maximizing your winners and minimizing your losses. With a positive track record, you can be able to place full trust in your trading strategies and be confident to put this to use on a live account.

Psychological differences of demo and live trading

Some beginner traders in their first few months of live trading end up surprised that they are having difficulties replicating their success in demo trading to a real account. This is perhaps a result of underestimating the psychological differences between demo and live trading and not being able to make the proper preparations for it.

For one, having real money on the line can mean stronger emotions. While you were able to master controlling your fear of losing or your greed while demo trading, these emotions can have a larger impact when you are trading a live account. After all, it is not easy watching real money being lost during a losing trade so the temptation to give in to these emotions can be stronger. Some traders might even wind up reverting to their old trading habits of setting stops too tight or not sticking to one's trade plan when starting out with live trading.

This can be avoided by treating your demo trading mistakes as though they happened on a live account. Although demo losses don't translate to losing money,

you can come up with penalties when you make trading mistakes such as putting money in a jar or keeping a tally of your losing trades.

The pressure to make up for a losing streak on a live account is also considerably stronger compared to having a drawdown on demo. When you are trading a live account, each consecutive losing trade becomes all the more painful since you know that you will have to come up with really good trade ideas just to make the money back. In demo, while the losses might hurt your pride, you know in the back of your mind that you can simply reset your account and start over without much damage.

Lack of proper psychological preparation can also lead traders to overtrade when they move over from demo to live. For some, this can be a result of a winning streak that makes them overconfident and forget all about trading discipline and proper execution. Overleveraging might also be a problem if one hasn't mastered proper position sizing and risk management techniques.

Remember that success in demo trading isn't a guarantee that your live trading experience will be profitable. At the start, it may be a bit of a challenge to adjust to your emotions and stay focused, but maintaining a solid mind set and working on consistent execution can be the key to long-term profits.

Keeping a trading journal that notes your decisions and rationale behind them can help you master trading psychology and take the lessons you learned from demo trading to live trading. Having a strong foundation in forex concepts and being able to keep a calm mind even in a volatile market environment can help you achieve a more seamless transition from demo to live trading.

Tips for part-time forex traders

Since forex is a 24-hour market, trading can be done part-time on top of a full-time job. However, it is also important to be psychologically prepared for this trading approach as it requires some lifestyle considerations and adjustments. Without making these, you might be setting yourself up to fail and letting the frustration take its toll on your mind set.

First, consider how much time you can spend trading. If you have a full-time job that has a regular schedule, then you can set your trading hours before or after work. It is not recommended that you trade while you are working since this will lead to concentration issues, aside from being unethical and irresponsible.

Instead, make sure you set a trading schedule and you stick to it. By having a pre-defined time of when you will look at the charts and execute trades, you can also adapt your trading strategy to it. If you are able to trade during session overlaps, then you could focus on day trades that can be entered and exited in a short span of time and with more potential for volatility. If your trading schedule happens to fall on periods of lower volatility such as the middle of the Asian trading session, then you might want to consider taking longer-term setups that can be kept open for a long while and monitored every now and then.

Second, make sure you are able to maximize your trading hours. Since you have a limited time to spend on watching the markets, you shouldn't stay idle when you can't spot a trade setup. You can use this time to read more on the market happenings or to expand your trading skill set. You can also broaden your horizons and look into currency pairs that you don't normally trade to see if there are profit opportunities there as well.

Third, learn how to prioritize. Again, with a limited amount of time spent watching the markets and taking trades, you should be able to determine which tasks need more of your attention. You can come up with a simple schedule to stick to in order to ensure that all bases are covered.

For instance, you can start your trading time by spending a few minutes on research and fundamental analysis. During this time, you can check out the economic calendar to mark the upcoming reports that you can trade and potential event risks to your open trade. After that, you can spend time browsing through the forex charts to spot any technical setups that are aligned with your fundamental biases. Don't forget to allot a few minutes to trade journaling since these notes will definitely come in handy later on as you review your trades.

Lastly, build on what you've learned by thinking of ways to improve. Forex trading is a never-ending learning experience, as the market environment often shifts. You should be able to have a trading strategy that can adapt to these changes or at least a mind-set that can be flexible to dynamic market factors. Make sure that you review the trading psychology lessons you've learned throughout your experience and make mental notes on the things you need to remember and work on while trading.

Are you ready to be a full-time trader?

While the prospect of making money on the forex market full-time seems like a very enticing career for many, it is not for everyone. It takes a specific kind of individual with certain must-have traits in order to succeed in this battlefield.

Of course this is not to discourage those who are looking to pursue trading as a full-time career, as some believe that these traits can be developed. For instance, the Turtle Traders came from various backgrounds and were trained under a specialized forex trading method, eventually achieving success in the field. In fact, many believe that successful traders are made, not born.

It is not an easy feat though, as statistics reveal that nearly 90% of traders wind up failing. For the fortunate 10%, the road to forex trading success probably hasn't been all too easy, as it requires a lot of patience, fortitude and discipline to make it.

For one, having enough capital is a huge consideration, as it would take a reasonable trading balance to be able to generate returns enough to sustain a living if you're trading full-time. Bear in mind that there will be losing days and there will be instances when the markets barely move, so the profit potential is not always guaranteed.

Another thing to consider if you're thinking of trading full-time is whether or not you are able to generate consistent returns in your part-time forex trading stint. If you have the track record to show that you can be able to stay profitable in the long-run, then you have a better shot at making it full-time.

Aside from that, you have to keep in mind that the pressure to make money in full-time trading is considerably stronger. If you've had trouble adjusting to the pressure and staying focused when transitioning from demo to live trading, then you might not be mentally strong enough to withstand the shift from part-time to full-time trading.

As mentioned earlier, this is not to discourage those looking to trade full-time but rather to disclose the risks involved. If you feel that you are not emotionally or mentally ready yet, you can always take your time to develop your skills or to train your mind in order to be in a better position to trade full-time. As always, the importance of keeping a trade journal comes in, as this will allow you to keep track of your progress and pinpoint areas which you can improve on.

It might help to think of full-time trading as a business, wherein you evaluate the strengths, weaknesses, opportunities, and threats. Once these have been determined, you can better align your skills in order to come up with a good strategy to stay profitable. You need to be aware of the risks involved so that you can prepare for these beforehand and limit your exposure.

Above all, it is important to be honest with your self-assessment before making the transition from part-time to full-time trading. There's no use fooling yourself or being in denial about the skills you haven't mastered, as these can lead to costly mistakes. Instead, examine your motivations for going full-time in forex trading and make sure you set reasonable expectations for yourself.

The importance of keeping a trade journal

While the idea of keeping track of every single trade idea, decision, and outcome seems tedious, it could hold the key for forex trading consistency and long-term profitability. Here's why it is important to develop the habit of maintaining a trade journal and its benefits for your trading psychology.

A complete trading journal not only contains the pertinent trade details, such as entry and exit prices or the number of pips gained or lost, but it should also indicate notes on your trade decisions. This covers trading psychology details such as your confidence in taking the trade setup, your reaction to expected and unexpected market events, your decisions midway through the trade and the rationale for those. By keeping track of these, you can gain better insight on how your emotions and mind set are influencing your trading performance.

Keeping a trade journal is similar to a professional athlete taping games and reviewing them. Too often there are details and plays missed when simply trying to recall a game from memory so watching a play-by-play tape could reveal crucial strategies or tendencies that can lead to improvements. Whether its football, basketball, or even performance sports such as gymnastics, elite athletes often refer to tapes to analyse their performance and figure out what they need to work on.

When it comes to forex trading, some traders also try to have a recording of their trades, particularly those who are into scalp trading. Others resort to having a trading mentor or coach who can provide a rundown of how a trade played out and the decisions that influenced profitability. For those who don't have the resources or time to do so, keeping a detailed trade journal is a viable alternative.

In reviewing a trade journal, you can be able monitor the common mistakes you make and take specific action steps to avoid them. For instance, if you notice that you are setting your stop losses too tight when trading news releases, you can be able to remind yourself to add more leeway next time. If you notice that entering trades at market makes you more nervous and uneasy with your trading decisions, then you can make it a point to go for limit entries on your next trades to ensure that you have a better and more relaxed trading mind set.

From there, you can gain more confidence in taking your usual trade setups or sticking to your trade strategies. Having a trade journal also allows you to keep track of the numbers and statistics, adding to the assurance that your plan can generate consistent profits. With that kind of confidence, you can focus your energy into executing properly instead of doubting your trade decisions.

Components of a complete trading journal

Much has been said about the importance of having a trade journal but it is also necessary to emphasize that its efficiency hinges on its completeness. Not only must it have the pertinent trade details such as entry and exit prices, but it should also have notes on your fundamental bias and your decision-making process. Here are some of the components that should be part of your trade journal.

First, the trade-specific details such as the entry and exit areas must be discussed. It is not enough to list down the prices where you plan to open or close your trade, as you should also mention why you are watching those particular levels. To take it a step further, you should also include various price scenarios or the potential impact of upcoming events to list levels that would be optimal to cut losses or add to your position.

Next, your fundamental bias for taking the trade must also be written down. This would allow you to have a clearer insight and would give you something to review later on. Did you miss anything in your analysis? Was your bias spot on or completely off? Were there any changes that you should've adjusted to? These are just some of the questions from which you can draw observations and trading lessons from.

Aside from that, your trading journal should also have a risk management portion. Apart from detailing how much you plan on risking per trade, you can also include your strategies if you will scale in or scale out later on. This way, you can be able to plan ahead and avoid panicking when price action starts moving too quickly.

Another helpful component of your trade journal is a list of the upcoming event risks. This will help you know what to watch out for if you're going to keep your trade open for a few days instead of being blindsided when an economic event blows your trade out of the water. This can also help you identify opportunities in which you can add to your position and maximize your profit potential.

Of course it is not enough to just write down your pre-trade thoughts, as you should also input your decision-making process throughout the trade. While your trade is open, you might have some adjustments that need to be made so you should also note these down and how it influenced the result later on. Were you able to cut losses just in time? Was there an unforeseen event that you were able to adapt quickly to? By taking note of these actions that occur while your trade is open, you can be able to fine-tune your trade execution process later on.

Lastly, it is also crucial to have a post-mortem of your trade. This part should indicate whether or not you were happy with your trade idea and decisions and if you need to make changes in your next trade setups. In fact, this might be one of the most important parts of your trade journal as you make sense of what happened in the markets and how you handled your trade.

It is important to have a review of each trade and your overall trading performance so that you can see the details while assessing the bigger picture. Only then can you be able to determine which areas you need to improve on or what you are doing right, then keep improving your trade performance as you go along.

How to learn from your losses

As discussed in the previous section, it is very important to have a thorough review of your trade in order to determine what you did wrong or what you did right. In case the trade turns out to be a losing one, you can still benefit from it by figuring out what you could've done better and applying these lessons to your future trades.

While it's true that it can be painful to review a losing trade, remember that experience is the best teacher and that your losses can be a good reminder of what you should avoid later on. Did you fail to watch an important economic release that wound up in a price reversal? Were you unable to adjust your stop loss in time? Were you too greedy with your profit targets? By remembering these mistakes, you can remind yourself not to repeat them in your next setups.

Most losing trades stem from either a completely wrong price bias or improper trade execution. The former one may be easier to correct as it could simply demand better analysis or a more precise outlook for future economic releases. On the other

hand, the latter could take time to develop as it requires the formation of better trading habits.

Quite too often, human emotion interferes with proper trade execution, as the fear of losing can lead you to set stop losses that are too tight or to lock in profits too early and miss out on larger moves. Meanwhile, greed or overconfidence can tempt you to set profit targets that are too ambitious or to overtrade. What's important in your learning process and trade journaling is that you note down your motivations for setting your stops or targets or for making trade adjustments midway so that you are able to identify behavioural patterns that you might need to correct.

Another factor that can interfere with trade execution is indifference, particularly when you are in a long losing streak and you feel numb to consecutive losses. This can be damaging to your trading psychology and may be a sign that you need to take some time off instead of forcing your trades. When you spot this kind of thought pattern in your losing trades, you should remind yourself to take it easy or take a step back from trading for a while.

Some say that the worst can bring out the best when it comes to the learning process. While a terrible trade can have some sort of trauma on a trader, it can also be an excellent reminder of how a trading mistake can impact profitability and one's mind set.

How to learn from your winning trades

While the previous section focused on how you can learn from your losing trades, this article breaks down how you can learn from winning ones. More often than not, winning trades contain valuable lessons that a trader can build on to get more profits later on.

While losing traders offer the chance to learn from your mistakes, winning trades allow you to identify your strengths. In noting what you did right, you can remind yourself of the good trading habits that you can keep in order to improve your profitability.

In some cases though, consecutive winning trades can lead to overconfidence, which can delude a trader into thinking that he no longer has anything new to learn. This is a dangerous assumption, as it might lead to overtrading or overleveraging. Always remind yourself to assess your recent trades and even try do identify if you could've done anything better.

Even if a trade turns out to be a winning one, there may be a few opportunities missed or trading rules not followed. Just because you wound up with profits doesn't mean that your execution was perfect. In any case, it is important for your long-term consistency and profitability to review your trades and decision-making process.

What's great about reviewing winning trades is that you are able to keep a positive mind set in trading. If you are in a losing streak, go over your previous winning trades and figure out why you were able to make profits off those. Was it a result of good foresight? Were you able to adjust more quickly to changing market factors? Was your analysis more thorough?

As you review your winning trades or compare it to losing ones, it might also be helpful to keep a list of lessons learned. That way, you will have a constant reminder of the takeaways from each trade and come up with methods to do better in your next trades. You can even add to your trading strategy rules or make the necessary adjustments.

Keeping track of your winning trades also reminds you to maximize your profit potential. For instance, if you had been comfortable with a 1:1 return-on-risk in the past, you can take a look at your winners and see if you could've made a 2:1 or 3:1 return-on-risk with a few adjustments. If you are consistently profitable with a particular strategy, you can also gradually adjust your risk for that kind of trade setup.

Always keep in mind that there is no end to learning in the forex market. Even if you are able to come up with one winning trade after another, there will always be a way to do better and lessons to learn so that you can sustain your progress. Market conditions may change from time to time but if you were able to build on your strengths, you can retain the same level of confidence in your skills and be in a better to position to make adjustments.

How to deal with forex trading stress

Given the fast-paced nature of the forex market and its potential to result in monetary losses, it is not surprising that a lot of traders suffer from stress. After all, the idea of losing real money in a forex trade can lead to frustration and in some cases, anger aimed at oneself or the markets.

During these times of stress, traders can be prone to not thinking clearly or making plenty of trading mistakes. Proper habits in trading execution might be thrown out the window when one is desperate to make money back after a series of losing

trades. A trader might wind up overtrading in an effort to bounce back from a loss, failing to focus on adjustments that might need to be made.

When you feel that you are stressed because of trading, you could try to take a step back to identify what's causing your stress. Is it because you have been losing trades one after another? Are you missing out on key market events? Either way, you can have a quick review of your trading journal in order to determine if you need to make any changes.

Stress might also be induced by external factors and in this case, taking time off is also recommended. If you are under a lot of pressure in your job or having problems in your family, then you might be better off focusing your energy on addressing these concerns first instead of letting your stress interfere with your trading.

The first way to deal with stress is to acknowledge it. Identify where the stress is coming from so that you would be able to figure out how to eliminate it. If you refuse to admit that your stress levels are rising, your trading account might take the brunt of it and you would wind up in a worse position than before. It is important to address the problem early on before it compounds and leaves you in a much more stressful situation that is more difficult to get out of.

The next step is to calm down. While trading under stress can lead to panic or indecision during volatile market situations, you should remind yourself to take it easy and keep a clearer head. It is easier said than done but you can try isolating the negative emotions influencing your trading and start focusing on pertinent market factors and price action.

Lastly, keep track of your source of stress so that you can be able to deal with the situation when it comes up again. Do you get easily stressed when an economic event is coming up? Then you can come up with ways to limit your exposure or remind yourself to stay on the side-lines next time. Do you feel the stress when you are trading larger positions? Remind yourself to stick to a standard risk amount or make more gradual increases next time.

Even if stress will come and go throughout the course of your trading career, it is important that you know how to handle it and prevent it from interfering with your trade decisions. In fact, you can even turn it around and make yourself more alert to the trading aspects that you should be more focused on.

Keeping your focus with volatility and uncertainty

Some say that the only thing certain in the forex market is uncertainty. While there are ways to predict more probable price movements, there will always be that element of surprise from time to time, as unforeseen events or shifting market dynamics could play a larger role in determining forex action.

These kinds of market changes or surprises could result in a few losing trades every now and then, yet traders who are aiming for long-run profitability know that having an edge in the markets and going for high-probability setups could still lead to consistent gains. Traders who haven't properly developed their trading psychology or mind set might wind up getting frustrated when they can't seem to understand how the market is behaving and wind up getting more losing trades.

What's important is that you are able to develop a trading process or strategy that can allow you to stay flexible and on top of your game even when market dynamics are changing. Bear in mind that seasonality can also come into play and affect forex movements, which means that your trade plan should be able to adapt to these situations.

In particular, liquidity starts to decline during summer months, which means that trends are weaker and that most forex pairs might stay in range. If you make use of a trend-following system, you might not be able to catch as many signals or profitable setups during this period. Instead of abandoning your system entirely, you can focus on figuring out what you can adjust in your trade plan during periods of low liquidity and ranging market behaviour.

As for unprecedented market factors, perhaps the best way to deal with losing a trade from a "black swan" event is to understand whether it affects the bigger picture or if it is just a one-off event. In doing so, you can be able to figure out if you should adjust your biases or risk preferences in order to take the event into account. Being too stubborn and discarding the future market impact of the event might prove to be costly if you are unable to make the proper trading adjustments for it.

For instance, geopolitical risks can sometimes lead to sharp price spikes that can wipe you out of a trade in an instant. Even if you wind up with a losing trade from this, you don't have to sit on the side-lines until the risks fade completely. Instead, you can weigh in on how these risks affect overall market sentiment and take trade setups based on this prediction.

Keep in mind that each trade setup is statistically independent and that you can be able to shake off any losses if you regain focus and figure out how you can improve your analysis and performance. Always remember that, even if you are not in control of market factors, you are still in control of which trade setups you choose to take and your risk per trade.

How to recover after blowing up your account

It's not unusual for beginner Forex traders to wind up completely wiping out an account through a series of losses or poor risk management. While this unfortunate scenario can be avoided with the right amount of trading knowledge and discipline, it would also help to have a battle plan to bounce back from blowing up your account.

Instead of dwelling on frustration and anger, you should take a more constructive approach in dealing with blowing up your forex account. Perhaps the first step you can take is acceptance, as this will put you in a better position to start recovering from the loss. There is no need to focus on the negative aspect though, take it as a lesson learned and an opportunity to bounce back.

After accepting the reality of losing your money, look back and try to figure out where you went wrong. Did you risk too much on each trade? Did you overtrade in an effort to recover money lost on a bad trade idea? Were you over-leveraged? Did you fail to conduct proper analysis before taking trades? These are just some of the questions you can think about when analysing your decisions.

At this point, you should have a trade journal that you can review in order to pinpoint the mistakes you've made and how you can avoid them in the future. Without a proper trade journal, it might be difficult for you to recall your trades and figure out what you can improve.

Another factor that you can review is whether or not your trading system is working for you. Even if you have the proper discipline and risk management rules, if your trading system isn't appropriate for the market environment, then you could still wind up with a terrible trading performance. You can opt to run another set of back tests on your mechanical system or take some time to review the rules of your trading system to see if any adjustments need to be made.

The next step after figuring out where you went wrong is to go back to demo trading. This can allow you to forward test the adjustments you are planning to make in order to have a more profitable performance and avoid wiping out your

entire forex account again. Apart from that, this can be a helpful exercise in regaining your confidence in trading.

Of course, there are plenty of psychological differences in demo and live trading as discussed in a previous section, but this shouldn't stop you from taking it easy and relearning the ropes. The important thing to remember is to take your time in recovering and that there is no need to rush when it comes to proving that you can trade better.

Once you have your trading confidence back and are able to see consistent results on demo, you can open a live trading account again and stick to the lessons you've learned.

Developing good trading habits

Most expert traders credit their success to good trading habits, which can be developed over time through a solid daily routine. Once these habits are ingrained in your processes, discipline and proper decision-making can become second nature.

As mentioned, habits take quite some time to develop. For instance, becoming a morning person doesn't happen in an instant as you have to get used to waking up earlier on a regular basis before you get the habit of starting your day earlier. Athletes or performers go through a set of drills regularly before developing muscle memory and strength to do better in their endeavour.

As with trading, you need to be able to repeat certain routines day in and day out in order to turn those into habits. For some, this involves starting the trading day by reading up on economic updates and market events before looking at price action. From there, trading setups can be identified using technical indicators before higher-probability trades are taken. After that, trade review and journaling must be conducted before ending the trading day.

Of course these routines can vary from trader to trader, as some might place more emphasis on technical price patterns and be less inclined to analyse fundamentals. On the flip side, some traders might be more focused on economic reports and schedule their trading routine around news releases.

What's important is that you are able to set your regular trading routine based on your strategy and trading preferences. In figuring out which methods work best for you, one can be able to fine-tune the trading approach and develop the necessary trading habits.

Another crucial part of coming up with your own trading routine is developing the habit of reviewing your performance for the day. This should include logging in your progress, profits or losses, and market thoughts in your trade journal so you can have something to review and work on later on. Apart from that, being able to sum up how your trading day went can enable you to gauge whether you are on track to meeting your trading goals or not.

Remember that having losing trades doesn't necessarily equate to a bad trading day, as you can still be able to draw helpful lessons from these losses. In addition, having large wins doesn't mean that you no longer need to review your performance, as you should be able to build from what you did right and turn these decisions into habits as time goes by.

While some might find a trading routine too tedious to repeat every single day, remind yourself that you can reap longer-term benefits in being able to develop the proper habits throughout the course of your trading career.

How to Get Started With Trading Meditation

You may have heard that meditation can help you trade better. Just like anything else, it is not for everyone, but I have yet to hear a case where it has not helped, at least a little, after the person gave it an honest effort.

So in this post, I will introduce you meditation for traders and hopefully remove some of the roadblocks that have prevented you from giving it a try in the past. You will understand why it works, how it can benefit and how to meditate properly.

It is something that I believe should be part of what I call Holistic Trading, where you are not simply looking for entries and exits, but consider all aspects of your life and how they can improve your trading.

Trading better then usually means that your quality of life will also improve, and the two will continually build upon each other.

Before we get started, you may think that doing meditation means that you have to join a religion or live in a commune or something. Although many meditation practices do have religious roots, it is not a requirement that you join any type of group to get the benefits.

It is similar to trading, where you are free to learn from different teachers and take what works and leave what doesn't.

Another misconception is that it is time consuming, complicated or mystical. It can really be as simple or complex as you make it. You can start to see results in as little as 2 minutes a day.

Just like in trading, I opt for simple…but do what works for you.

Why Meditation Works

Meditation works by allowing us to control the state of our minds. We can measure these states by the frequency of the electromagnetic waves that our brains give off. The measurement process is called electroencephalography or EEG, for short.

If you are not familiar with the different types of brain waves, here is a short summary. Mediation is associated with the theta and delta states, but I have included the others so you understand the bigger picture.

Your brain does not only operate in one state at a time, but in fact gives off brain waves of these frequencies all the time. When I talk about being in these states however, I am referring to the dominant frequency.

Gamma

When your brain is giving off frequencies of greater than 30 Hz, you are in gamma state. This is the state that is most conducive to active learning and information retention. It is also probably the least studied state. If you need to learn something, consider trying to increase your brain activity before you sit down to study. Think of something exciting or move around to get your blood flowing.

Beta

This is our bread and butter. When we are giving off frequencies between about 12 – 30 Hz, we are in an alert state and doing normal daily functions like analysing and planning.

Alpha

This refers to the brain waves that are in the frequency between about 8-12 Hz. This frequency range is associated with conscious reflection and a relaxed state of being. This is often when you are most creative.

Theta

Now we get into where meditation starts. When your brain is giving off waves in the 4-8 Hz range. It is a state of deep relaxation and awareness. In this state, you have an increased ability to visualize things and solve complex problems creatively.

Delta

When you go down past theta, you are in delta, which is less than 4 Hz. If your brain is in this state, you are often in deep sleep, although some long-time practitioners of meditation can reach this state while awake. This state is associated with healing.

Measurement

How do you know what state you are in? There are many devices of varying complexity that will measure your brain wave activity or biofeedback devices that will measure your stress level. Look around and see what suits your needs and budget.

Benefits

There many good reasons to practice meditation. In trading terms, it can lead to better concentration, calm under pressure and improved overall performance.

The benefits extend way beyond trading however. You will probably find that you are more relaxed in your everyday life and are able to cope with situations that may have overwhelmed you in the past.

In addition, according to a Harvard study, it has even been shown to ward off disease.

Now that you know how it can benefit you and how it works, let's take a look at how to meditate properly.

How to Meditate “Properly”

Contrary to what you may read on the internet, there isn't really one way to meditate properly.

Instead, in my research and personal experience over the past 15 years, I have found that “proper” meditation is the type of meditation that you will actually do on a regular basis and that works for you.

That being said, I think that the best thing that I can do for you in this post is to expose you several different types of meditation and sources of information so you can start your journey on the right foot and figure out what works for you.

Let's take a quick look at a few of the options that are out there…

A Basic Trading Meditation

- If you just want something to get started, here is simplest form of meditation that anybody can do. Just do it every day for 5 days and see how you feel.
- Find a comfortable place to sit with your back straight. You can sit against a wall, on the floor or in a chair, whatever is most comfortable for you.
- Close your eyes and breathe in and out deeply and steadily. Only breathe in and out through your nose. You do this because breathing out from your mouth can activate your fight or flight reaction, similar to if you were running from a hippo.
- Concentrate on your breath and try not to think about anything else. It can help to count to five in your mind when you inhale and again when you exhale, so your breathing is even. If it helps, imagine a blank white movie screen in front of you. This can help you keep other thoughts out of your mind and just relax.
- Do this for 5 minutes. Set a timer with a gentle alert tone, if necessary.
- Before you open your eyes, take one last deep breath in and visualize yourself calm and collected. Then exhale and slowly stand up and go on with your day.

Transcendental Meditation

You may have heard of this type of meditation before because it is very popular. Famous practitioners include: Paul McCartney and Ellen DeGeneres.

Famous practitioners do not include: Tom Cruise.

I believe that one of the reasons that Transcendental Meditation has become so popular is because of its simplicity and the fact that it is does not tie itself to any religion or lifestyle. Although I have not been through the full course, I have seen some of the TM tutorials in the past.

It is very simple and I'm not sure that you need a full-blown course, but I could be wrong.

How to do Transcendental Meditation

- Close your eyes, wait a few seconds, and then start thinking the mantra. It is thought repeatedly only in the beginning of meditation.
- After a while you should "let it go" and "allow the mantra to change in any way it wants". Whether it gets louder or softer, faster or slower down, clearer or fainter, we just take it as it comes. It is more of a "hearing" of the mantra than repeating it, and that is why TM movement calls the technique "effortless".
- Allow thoughts to come and go along with the mantra. There is no attempt to push thoughts out of our mind or use the mantra to override them.
- When the mantra disappears and the mind goes off on thoughts we quietly come back to it. This means that all we have to do is become (aware) that we are no longer hearing the mantra and the awareness of that will be quite sufficient to bring the mantra back to us.
- At the end of meditation stop thinking the mantra and wait about 2 minutes before opening the eyes.

And the list of mantras can be found here: http://minet.org/mantras.html

Qi Gong

For people who do not like to sit still, Qi Gong may be a good alternative. It isn't meditation in the more well-known sense, where you sit and close your eyes, but it does provide many of the same benefits.

The basic idea behind this Taoist practice is that you are cultivating and distributing your body's energy. You move and breathe in ways that help you become more centred and energized. I do these exercises occasionally and I feel great afterwards.

Other Practices

If you dig deep enough, you will find that almost all of the major world religions practice some form of meditation. Even if you don't believe in the religious part, you can still learn a lot by studying these practices.

Buddhism is the religion most frequently associated with meditation and there are some really good books out there. The one that gets mentioned the most is Zen Mind, Beginner's Mind, by Shunryu Suzuki.

I have read it and although there is some religious nonsense it in, there is a lot of very useful information and practical exercises. It is a great place to start if you are a beginner.

Best Free Meditation Apps for Android and IOS Devices

Best meditation apps for Android and IOS includes:

1. The Mindfulness App
2. Headspace
3. Calm
4. MINDBODY
5. Insight Timer
6. Smiling Mind
7. Sattva Meditations & Mantras
8. Stop, Breathe & Think
9. 10% Happier
10. Breethe
11. Omvana

Conclusion

So regardless of which method you use, just get started and find out what works for you. Keep in mind that you may have to do some searching to find what works best for you, so do not get discouraged if you do not feel any benefits right away. Just enjoy the process and understand that it is a lifelong endeavour.

Correct Expectations [$E(X)_c$], Returns on Investment [ROI] and compounding [$\sum (ROI)_T$] for *Scalping, Day Trading and Swing Trading.*

When you are trading, it is very important to have right $E(X)_c$, ROI and $[\sum (ROI)_T$. Let's look into each trading style:

Scalper:

Scalper must not think of making extra-ordinary returns per day. He must have realistic expectations before starting a trading day. Forget about making 5% to 15% returns every day because this is not practically possible to do something on consistent basis. Always keep expectations low no matter how confident you are or how much experienced and professional trader you are. You do not decide your ROI for a day rather market dictates it. So stop dreaming and make realistic expectations. Keeping expectations high will have two negative impacts. Firstly, you will over trade when your expectations are not met or you will take high leverage (high risks) trades to reach your expectations faster which will make you prone to account size rupture and severe drawdowns. Secondly, it will create a lot of stress for you which will have negative impacts both on your physical health and mental health. Think about not sleeping properly today due to excessive trading! Will not your lack of sleep impact your tomorrow?

Now let's come straight to the point. What is the Correct Expectation $E(X)_c$?

The logical $E(X)_c$ for scalping is 3% ROI for a day. 3% ROI is quite easy to achieve provided that you are a proficient trader. Let's consider an example here:

You start with 100 USD account attaining a small 3% ROI everyday consistently then when you compound [$\sum (ROI)_{15}$] your ROI for 15 months without going through any withdrawals, you will become a millionaire in one year and 3 months. That's exactly how a professional trader should think. Trading is not an Overnight Fortune Builder Game!

Day Trader:

Day Trader must not think of making extra-ordinary returns per day. He must have realistic expectations before starting a trading day. Forget about making 5% to 10% returns every day because this is not practically possible to do something on consistent basis. Always keep your expectations low no matter how confident you

are or how much experienced and professional trader you are. You do not decide your ROI for a day rather market dictates it. So stop dreaming and make realistic expectations. Keeping expectations high will have two negative impacts. Firstly, you will over trade when your expectations are not met or you will take high leverage (high risks) trades to reach your expectations faster which will make you prone to account size rupture and severe drawdowns. Secondly, it will create a lot of stress for you which will have negative impacts both on your physical health and mental health. Think about not sleeping properly today due to excessive trading! Will not your lack of sleep impact your tomorrow?

Now let's come straight to the point. What is the Correct Expectation E(X) c?

The logical E(X) c for day trading is 1% ROI for a day. 1% ROI is quite easy to achieve provided that you are a proficient trader. Let's consider an example here:

You start with 10,000 USD account attaining a small 1% ROI everyday consistently then when you compound [∑ (ROI) 15] your ROI for 15 months without going through any withdrawals, you will become a millionaire in one year and 3 months. That's exactly how a professional trader should think. Trading is not an Overnight Fortune Builder Game!

Swing Trader:

Swing Trader must not think of making extra-ordinary returns per month. He must have realistic expectations before starting a trading day. Forget about making 10% to 15% returns every month because this is not practically possible to do something on consistent basis. Always keep your expectations low no matter how confident you are or how much experienced and professional trader you are. You do not decide your ROI for a month rather market dictates it. So stop dreaming and make realistic expectations. Keeping expectations high will have two negative impacts. Firstly, you will over trade when your expectations are not met or you will take high leverage (high risks) trades to reach your expectations faster which will make you prone to account size rupture and severe drawdowns. Secondly, it will create a lot of stress for you which will have negative impacts both on your physical health and mental health. Think about not sleeping properly today due to excessive trading! Will not your lack of sleep impact your tomorrow?

Now let's come straight to the point. What is the Correct Expectation E(X) c?

The logical E(X) c for swing trading is 5% ROI for a month. 5% ROI is quite easy to achieve provided that you are a proficient trader. Let's consider an example here:

You scalped or day traded for 15 months and built your capital base. Now you are starting with 1 million USD account attaining a small 5% ROI every month consistently. You will be making 50,000 USD profit per month which is incredible to live a rich lifestyle. That's exactly how a professional trader should think. Trading is not an Overnight Fortune Builder Game!

Keeping Trading Journal is very important. Read the text below to find out why?

Keeping trading journal is very important trading instrument or tool. You can't make out as a successful trader without it. Many professional traders were trading without keeping trading journal for many years. They were unsuccessful but things started changing when they started keeping trading journal. They made a paradigm shift from a losing trader to a consistently profitable trader even though they were using the exact same strategies which they were using in the past. The only addition was the trading journal maintenance. Why is this so?

Before we can go into the depth of the reasons, we should try to understand what trading journal means.

Trading Journal is the trade log or trade inventory where your keep a record of your executed trades for post analysis. Trading Journal will make a tremendous difference in your trading due to two primary reasons:

Firstly, it creates a discipline in your trading as you regularly log your trades in your trading journal. This helps to cross check if you are sticking to the rules of your trading system, maintaining proper position sizing and not over trading. In brief, you self-analyse yourself on regular basis.

Secondly, you can analyse your past trades and spot your mistakes which you have done in your trading. You can then reflect back on your mistakes and improve upon them. You can readjust your trading system to define your edge in the market. In brief, your trading journal is feedback of your trading system. By constantly improving on your trades, you can become consistently profitable trader in relatively short period of time and this will significantly reduce your learning curve.

Why you should never trade full time or take your private trading as a job? Rather take trading as your hobby filled with passion.

I have studied profiles of many traders or prospective traders. What I have seen common among most of them is the attitude that sets them for huge failure in life. That problem is that they take trading too personally. Some even go far by taking trading as a potential source of income or even their mode of survival.

The brokers, advertisers, and the industry itself paints a very false picture of Trading:

- An easy way to make fortune
- The best job in the world
- Be your own boss and design your life the way you like.
- Quit 9 to 5 Job!
- Stop worrying about your finance and take control of your future
- Have freedom and flexibility to travel around the world
- Work from home

Stop listening to this snake oil sales pitches and pitches of illusions that mislead you and enforce you to take decisions which you regret throughout your life. Trading does not work like this! I am not saying that these goals cannot be achieved. In fact, they can be achieved but not without putting in immense hard work and efforts. You need to be process oriented and you need to understand that becoming successful at this hardest job in the world requires a lot of work, dedication, commitment and compounded efforts. Success will not be attained instantaneously but rather you should admit to the fact that good things take time! You are sacrificing your studies, your personal life, your social life, your health and your job for something that is process oriented and requires so much time to get good at will actually land you at the fool's men land!

Do not sacrifice your job and your studies for trading. You do not have to quit either of them to become good at trading. You should give more time to your job, your life and your studies and reserve your spare hours for trading so that you can turn trading into your passion and hobby. When trading becomes your passion and hobby, things starts changing for you and you set yourself towards becoming a master trader. Just dedicate an hour a day to learn how to trade and 4 to 5 hours during weekends to reinforce your learning. Try learning those strategies that have statistically proven to work. For example: Volume Spread Analysis & Wyckoff's

Principles, Volume & Market Profile Auction Theory + Price Action Trading and Commitment of Traders Reports + Price Action. Discard all rest that are garbage.

Some don'ts of Trading

- Do not trade to pay off your bills and other necessities of life
- Do not trade on borrowed money. If you do not have capital then go and do some physical job to build your own starting capital.
- Stay away from social media trading groups like Telegram groups, Facebook groups, etc.
- Never sacrifice your studies and job for trading.
- When you are successful in riding a successful trader's ladder finally then never help others financially and just reject them straightaway. People will normally be attracted towards you if they see you making money. If you want to help them then help them with the knowledge that has made you successful. Educate them, don't fund them. If you start helping people financially then you will just put extra useless efforts for others. This will turn your trading stressful and emotional. Even a best trader will underperform in this condition.
- Stay miles away from desperate people. If they bother you a lot then just block them from your social media.
- Always keep yourself as a low profile trader and do not expose yourself publically. Successful trading needs to be highly secretive and personal.
- Never pull your friends and family members towards trading. Just keep trading personal to yourself.
- Stop believing that a signal provider, an account manager or robot will ever make you money. You have to learn to make money yourself and stop depending on others to operate your investment vehicle. Stop believing in all marketing gimmicks attached to trading. Use your common sense that if such things were possible and easily accessible then everyone would have been a Millionaire.

I hope you will put these advices into practice and develop the right perspective about trading along with process oriented mind-set.

Why Trading Developmental Process needs to be effortful but trading itself needs to be effortless?

Many beginner traders fall in the trap of effortful trading. They spend so much time analysing charts and working too hard in order to generate high frequency of trades. They think the more they trade the better will be the outcome which completely a myth and leads to over trading. Over trading introduces too many problems in not only on his trading account but also in his personal life. Stop looking for massive unlimited profits in a given period. You as a trader must have clear, objective and achievable goals. Patience is the key to big rewards. You do not have to hunt for every opportunity presented by the market but hunt for best opportunities. To extract best opportunities from the market, you need to pay its price in the form of patience. Surely, your patience is highly rewarded. You have to commute a lot of time in practising your trading system before you acquire its perfection. You need 10,000+ hours screen time, a lot of back testing and forward testing before you totally reach a stage of your trading system mastery. This why the title itself says that Trading's Developmental Process needs to be effortful. Once you have mastered your trading system, now you just have to be calm, relaxed and patient to hunt for best trading opportunities in the market. This is where the effortlessness comes in.

As I am not looking to immediately jump back in and initiate new positions I'll write a bit more about my thoughts and what motivated me to go to cash. Going to cash serves a lot of purposes. The most important one is recharging one's batteries. The number one goal as a trader is to reach a 'flow state of mind' in order to be able to trade at 'peak performance'. You can't possibly expect to be able to trade in such a way every day, year in year out. That's why recharging your batteries and taking breaks on a regular basis is vital.

Money comes in bunches.

That one says it all. You can't force trades. You can't simply work harder in order to be 'in sync'. Sometimes you are, sometimes you are not. You simply have to accept that as being part of the trading business. What you can do, is to closely monitor if your performance is in sync with the market's performance. If the markets make new highs and your overall portfolio is going down something is wrong. You need to address that issue. Fast. The best way is to step aside and drastically reduce exposure and risk. That's what I did.

Trading should be effortless.

A true piece of wisdom. In my experience when I trade well it is like shooting fish in a barrel. Almost everything works. I don't need to be overly patient with positions. The money comes in very fast. That's exactly how trading should be. The exact opposite was the case during the first 2 months of this year. So I did what I had to do. I recognized the situation for what it was and admitted my efforts were not leading my portfolio anywhere. It was like folding when you are dealt a bad hand in poker. So I folded. Now I am waiting for the next hand. If it is a bad one I fold again. If a series of trades start to really go my way I push it hard and increase exposure and trade aggressively.

When in doubt stay out.

This one is key. That's how I interpret the adage: It doesn't mean you don't trust your instincts or your methodology. As a trader you should adapt to new situations. You constantly analyse the markets and your performance. Then you adjust your trading. Then you compare your expectations with the actual outcome. Then you adjust your trading. Then you repeat the process. At times things simply do not work. That's when doubt creeps in. You know something is not 'feeling right'. Your job is to protect your capital. Your job is not 'to be right'. Put another way: You should be able to exit or reduce exposure without the need for explanations. The markets usually give you those explanations at some later point in time. As a trader your goal is to be able to live with and embrace uncertainty.

PROCRASTINATION: IT CAN PUT OFF YOUR DESIRED TRADING RESULTS

There it is, that unfinished Macro Trade Plan that you committed to finishing before your next live trade, that stack of books that you promised yourself you'd read and the list of unfinished to-dos that go back weeks. You find yourself thinking, "What is wrong with me, why can't I follow through with at least the stuff that is important?" Yes, this is all too familiar because it happens over and over, and you may feel powerless to stop it. In fact, it may be the story of your life. You've missed deadlines, squandered resources and embarrassed yourself all because you didn't follow through… you procrastinate.

Procrastination – putting something off till a later time or date – appears to haunt many a trader's life. It can ease up on you like a fog rolling in, and before you know it you can't clearly see the path to getting the results that you want. If you've ever said something like, "I'll do it when I get around to it" or "tomorrow I'll feel better about it" or "I'm more creative when I'm close to deadline," then you have suffered with procrastination. In fact, you may be plagued by this so much that you think nothing can be done about it. However, the reality is that procrastinators are made not born.

Let's look at procrastination little more closely. Often procrastination begins early in life and is related to parents that are authoritarian and controlling. As a consequence of this environment, children become more anxious about performing and hyper-sensitive concerning criticism and judgement from others. This creates an attitude of self-incrimination that anticipates a poor performance which causes the individual to procrastinate resulting in a self-fulfilling prophecy as they have little time left and have allocated insufficient resources to accomplish their task. The anxiety and fear associated with this behaviour debilitates their resolve and often generates what appears to be an insurmountable barrier that separates them from carrying out an intention. When left unchecked, this situation can create a depression filled life that is strewn with the ghosts of things that could have been but never were.

Though the above scenario is common, procrastination has affected just about everyone at one time or another. Essentially there are two types:

Deadline Related Procrastination is commonly experienced by students and professionals when that important paper or expense report is due. The deadline type is a little easier to tackle and subdue.

Commitment Related Procrastination affects those who keep putting off making a desired change or personal accomplishment such as completing a Macro Trade Plan or writing a book or taking up a hobby. People that consider themselves to have good self-discipline and to have conquered deadline procrastination would probably be hard pressed, if they are honest, not to admit to struggling with some form of commitment procrastination.

It doesn't have to be that way. It may not be all your fault but it is all your responsibility. You can change; however, it depends on how badly you want to change.

Tips to Stop Procrastinating:

Make a List

Identify what accomplishments are expected of you. Make a list of the steps that are required to complete each item. After you have written them down, prioritize them and use them as a checklist. If you have ever had a to-do list then you have experienced how good it feels to scratch an item off that list. This will provide a reinforcing force and every time you scratch another item off you will be in a stronger position to continue.

Break Projects Down into More Manageable Segments

Rather than approach an item that is big and may seem daunting as one task, break it down into smaller "bite-sized" pieces. This will help both your willingness and your ability to follow through to get it done.

Be Specific With Goals and Time Tables

Don't allow vague descriptions of the things you want to achieve. When you are specific, detailed and clear about your objectives along with creating realistic but challenging time tables you are much more likely to remain on target and on task to complete your items.

Recognize the Onset of Procrastination

When you are in the about-to-procrastinate mode, you are likely to experience a thought. For instance, "I'll feel better about this tomorrow," followed by a lowered anxiety, then the avoidance behaviour. When this happens, change the thought to, for instance, "Actually, I'll feel better once it is done." This will help you to feel more positive about taking a step toward completing the task. In this way, you are interrupting the emerging pattern that ends with the evasive conduct and replacing it with a proactive action. How to overcome procrastination

Eliminate Distractions

Turn off the TV, put away the book and put down the phone. These and other things like them become distractions that take you away from your intention to complete the task.

Reward Yourself

When you have achieved your objective, either completing a step in the process of accomplishing the goal or the goal itself, celebrate by giving yourself a reward. You have realized a private victory that warrants being good to yourself. This will reinforce the process, and the more you do it the closer you will come to incorporating this pattern as a habit. Doing what it takes to position yourself one step at a time to become a consistently successful trader involves remaining diligent and vigilant to those small steps that will take you to achieving the results you want.

Procrastination, and in particular trading hesitation, over your trade set-ups is very frustrating and detrimental to the health of your trading account and your emotional and physical wellbeing. Whenever we observe behaviour patterns that prevent us from trading profitably value conflicts born out of incorrect assumptions about your reality are always at the root of the issue.

In a world that is changing in all areas faster than is comfortable for the conditioned limited mind, hesitation is a common coping mechanism that is designed to slow down the information intake in an attempt to gain time to make sense of events and harmonize the value conflicts which run deep in the subconscious part of the brain.

The conditioned, conscious part of your mind functions in a linear fashion. It always seeks out existing reference points to make decisions. Naturally, those

reference points stem from the past beliefs and conditioning and are mostly of no use in your trading.

Trading asks you to operate in a fast changing environment with little or no reference points. I might also say that everything you have learned until you started trading has no or at best very little value in making consistently good trading calls.

While the conditioned mind is checking for reference points in an attempt to make sense of the charts and provide you with valid assessments for your next trade, your subconscious mind, which accesses larger amounts of information much quicker in a non-linear, lateral manner will be in conflict with the slower part of your conditioned brain. The conditioned part of your brain from which you predominantly are operating is slow, it cannot access any kind of information for which it has no reference points.

This conflict between the conditioned side of you and the higher self-part of you creates many a state of disharmony and friction. Two sides are fighting inside of you for dominance. You will experience inner battle as anxiety, stress and other trading fears. Fear, stress and anxiety point to value conflicts which in turn make you doubt yourself causing you to hesitate and procrastinate.

The stagnation of the energy feels most uncomfortable and needs to be resolved, alas not in the way you have been used to. The big issue is this —you cannot will yourself, or discipline yourself out of hesitation and procrastination. Therefore, a new way of looking at yourself is required and this is something most traders don't like because it challenges what they have come to believe in as their identity. Resolving the dilemma of the mind requires moving beyond it. While you are stuck in a rut, as the saying goes, using the same old mental processes to get out of hesitation, you are in a no win situation: After all, it is your conditioned mind which is causing the problem. In order to free yourself from the shackles of hesitation you have to expand into other areas of your mind.

I am talking about accessing that creative, intuitive side of your mind that observes free from conditioning and free from judgement. It therefore has the ability to notice things the linear mind simply cannot see.

Moving beyond the constraints of the linear mind feels uncomfortable. You are not used to operating from a whole brain perspective; rather you are favouring one part of your brain over the other parts. This skews your reality and obviously affects the way you trade, creating tension, as already discussed.

Getting Out Of Immersion

While one is still fully immersed in a behaviour one cannot change it. Alas, the very moment you notice a habitual pattern you are beginning to free yourself from the grips of immersion.

At this point you can take positive action and start making changes.

In order to lift procrastination and hesitation you have to let go of old belief structures and learn to operate from a holistic perspective. This means learning new techniques that assist you to make change.

Your willingness to embrace new ways of thinking is more important today than ever before. The world is changing, and so is the world of trading. Paradigms in all areas of our existence are being challenged and examined for their usefulness and value to our lives today. The findings in quantum physics are bringing us many new insights and are changing the way we see our world.

This shift is cyclical and you are an integral part of it. As the old value conflicts are brought into our consciousness our job is to embrace the uncomfortable feelings and emotions that may arise as a result of our expanding awareness, instead of fighting them.

Learning to use tools to help you establish and maintain equanimity, self-confidence and eliminating self-doubt should be high on the agenda for every trader.

Your true self is the only asset you possess that is timeless and everlasting, it is not your trading account, or your trading strategy, or your conditioned self. All mastery is about uncovering that true self that resides behind the false perceptions and conditioning of the conscious mind.

Finding a Trading Style That Suits Your Personality

There are four main styles of trading, namely scalping, day trading, swing trading, and position trading. Technically, scalping is a type of trading within day trading, but scalping is so different from all other forms of day trading, that I consider it to be a separate style.

The difference between the styles is based on the length of time that trades are held for. Scalping trades are only held for a few seconds, or at most a few minutes.

Day trading trades are held for anywhere from a few seconds to a couple of hours. Swing trading trades are usually held for a few days. Position trading trades are held for anywhere from a few days to several years.

Choosing the trading style that best suits their personality can be a difficult task for new traders, but is absolutely necessary to their long-term success as a professional trader. If you are a new trader (or even an experienced trader) that does not yet feel as though you have found your trading style, the following are some of the personality traits that are compatible with the different styles of trading. By choosing the trading style that best suits your personality, you will have a better chance of being a profitable trader, so be honest, even if you don't like some of the personality traits that are listed.

Scalping

Scalping is a very rapid trading style. Scalpers often make trades within just a few seconds of each other, and often in opposite directions (i.e. they are long one minute, but short the next).

Scalping is best suited to active traders that can make immediate decisions and act on those decisions without hesitation. Impatient people often make the best scalpers because they expect their trades to become profitable immediately, and will exit the trade promptly if it goes against them.

Being a successful scalper requires focus and concentration, so it is not a suitable trading style for people who are easily distracted or who often find themselves daydreaming (i.e. if you've been thinking about something else while reading this, then scalping is not for you).

Day Trading

Day trading as a style is more suitable for traders that prefer starting and completing a task on the same day. For example, if you were painting your kitchen, and you would not go to bed until the kitchen was finished, even if that meant staying up until 3:00 AM.

Many day traders would not consider making swing or position trades because they would not be able to sleep at night knowing that they had an active trade that could be affected by price movements during the night (such as those that cause opening gaps).

Swing Trading

Swing trading is compatible with people that have the patience to wait for a trade, but once they have entered a trade they want it to become profitable quite quickly. Swing traders almost always hold their trades overnight, so it is not suitable for people that would be nervous holding a trade while they were away from their computer (i.e. overnight, in the shower, at the movies, etc.). Swing trading generally requires a larger stop loss than day trading, so the ability to keep calm when a trade is against you is a necessity.

Position Trading

Position trading is the longest term trading of all and often has trades that last for several years. Therefore, position trading is only suitable for the most patient and least excitable traders.

Position trading targets are often several thousand ticks, so if your heart starts beating fast when a trade is 25 ticks in profit, position trading is probably not suitable for you.

Position trading also requires the ability to ignore popular opinion because a single position trade will often hold through both bull and bear markets. For example, a long position trade may need to be held through an entire year when the general public is convinced that the economy is in a recession. If you are easily swayed by other people, then position trading is going to be difficult for you.

Being Faithful to Your Trading Style

Choosing a trading style requires the flexibility to know when a trading style is not working for you, but also requires the consistency to stick with the right trading style even when it is not performing optimally.

One of the biggest mistakes that new traders often make is to change trading styles (and trading systems) at the first sign of trouble.

Constantly changing your trading style or trading system is a sure way to catch every losing streak. Once you are comfortable with a particular trading style, remain faithful to it, and it will reward you for your loyalty in the long run.

How to Find the Trading Strategy That Fits Your Exact Personality

Almost every trader I have met starts on the wrong end of the trading education process. Yes, myself included. The journey becomes too difficult for most aspiring traders, so they give up and return to their cubicles. That's why the success rate of traders is so low. But for those who stick it out, the rewards can be tremendous. To give you the best shot at success, I will show you the three elements of your trading personality that you will have to understand, to get the best results…and hopefully shave years off your learning curve.

I'll also show you what will probably happen if you do not work out your trading personality first. I mention this because I want to help you avoid the pitfalls of learning to trade and also help you understand the importance of figuring out your trading personality early in the process.

What if You Started With the End in Mind?

Wondering about results

Many traders get interested in trading because they want to make a lot of money, quit their job and travel the world…and that's great! But therein also lies their biggest downfall. They only chase the money and look for the trading method that has the highest return…and that works sometimes. Like about as often as Hailey's Comet comes around. But for the vast majority of traders, that doesn't work and they just end up tired and frustrated.

However, with a little bit of foresight, you can greatly improve your chances of success in the trading game. The key is to understand what types of trading methods would work with your personality and desired lifestyle.

I think you will be surprised at how many trading strategies you can let go of, once you know what is more likely to work for you. That leaves you free to focus on becoming a master at just one trading strategy.

Need more return every month?

No problem, simply add more currency pairs, timeframes or trading strategies. But without one profitable trading strategy you are just spinning your wheels and will probably fail. That might sound harsh, but it's the grim reality of trading. Hopefully I have communicated the benefits of understanding your trading personality first. So with that in mind, here are the three pillars of your Trading Personality.

Trading Timeframe Personality

The first thing that you need to understand is your ideal trading timeframe. I call it your Trading Timeframe Personality (TTP). It will take a bit of experimenting to find out which timeframe works for you. There are basically three timeframes:

- Day trading
- Swing trading
- Long-term investing
- Scalping

You can take a few systems that you learn on the forums and trade them in a demo account. This will allow you to get a good feel for which timeframe suits your personality and daily schedule the best.

Remember, you are looking for the timeframe that matches you best. Not the system that makes the most money.

You can usually make more profits by trading more currency pairs or trading more systems. But is it much harder to trade against your personality and daily schedule.

Trading Setup Personality

Along the same lines as trading timeframes, are the different trading setups out there. There are basically two types of setups that traders look for:

- Technical setups
- Fundamental setups

You might be good at one or both. But the key is to start with just one and master it, before moving on. I call this figuring out your Trading Setup Personality (TSP). It is possible to make money as a technical trader or a fundamental trader…or some mix of the two. My eyes start to glaze over after I read a couple of fundamental reports, so I prefer to stick to 90% technicals and use only 10% fundamentals in the form of Commitment of Traders Reports.

But it will probably be different for you. If you are more of a technical trader, then you can break that down into three different categories:

- Breakout patterns
- Trend patterns
- Countertrend patterns

Figure out which one suits you best and start there.

Trading Risk Tolerance Personality

The third important thing to figure out is your personal risk tolerance. I'm sure that you have heard many times on the internet that you should not risk more than 2% of your total account on one trade…and this is excellent advice.

But the question then becomes, how much should you risk?

In reality, there is a per-trade risk tolerance that you will feel comfortable with, and you should not risk more than that, or you will see your performance degrade dramatically.

This is your Trading Risk Tolerance Personality (TRTP).

It is actually hard to figure this out in a demo account because you are not risking real money. So I would recommend opening a small live account with $100 and trade nano lots.

After you backtest a trading strategy, you can also use a drawdown calculator to show you how much you should risk per trade, in order to avoid a X% drawdown.

For example, if you would freak out if you lost 20% of your account, but you would be OK at 19%, then put 20% into the calculator. Next, put in the other stats of your system. Then play with the risk per trade until your risk of hitting a 20% drawdown goes to zero (or close enough).

The payoff

When you start your trading journey knowing these three things about yourself, will you give yourself a much better chance of success.

If you know your ideal trading timeframe and market conditions, you can choose the right education that will help you work with your innate strengths and not against them.

This will eliminate a big percentage of courses and mentorships out there and will save you a lot of money.

When you understand the risk tolerance that suits you best, you can use the risk that you are comfortable with, when you take any trading course. When you do this, you reduce the chances of blowing out your account and you can stay in the game longer.

You will also have greater confidence in your ability to learn to trade for yourself and that will help you stay away from trading robots, money managers and green fairies.

Now let's take a look at what happens when you don't commit to your trading and you don't figure out your trading personality.

The Typical Trading Journey

It is a little painful to write about this because I have spent way too long on some of these steps. You can probably relate.

Hopefully, by understanding the common stops on the trading journey, you can avoid the ones that won't help you progress as a trader.

Here we go…

You Hate Your Job and Discover Forex…Among Other Things

Office

It's Monday morning and you are sitting in your desk at work. “Shit, this sucks,” you tell yourself. So you start surfing the internet to look for ways out of your J.O.B. and the usual stuff comes up…

- Real estate investing
- Stock trading
- Forex
- Online Marketing
- Futures
- Creating travel videos on YouTube
- Ecommerce on Shopify
- Sales Funnels

Since you found this book, I'm assuming that you picked Forex. You are excited it get started on your new trading journey, so you rush into it.

Here's what happens next…

You Join a Trading Forum or Group

Forex Forum example

Now that you are committed to becoming a Forex billionaire, you join a free trading group or forum to start learning the basics.

This is actually a great place to start. You can learn the lingo and get help setting up your software. The best part is that it's free!

You follow a few of the most active threads and try some of the trading systems. The forums help get you started, but they are also really confusing. Some people say one thing. Others say the opposite…and they start to get annoying. Conversations tend to degrade into third grade name calling. So you look for some real education to move you forward.

You Take Your First Course

Next, you start Googling for a reputable trading course to take. You choose a course based on how profitable the instructor is and if he or she trades professionally.

Things go well for a while and you are excited to be learning this proven trading system. Learning the system is simple enough and you start trading it in that real money account you just opened.

You Make Some Money

The trading system is working pretty well and you have your first profitable week! This trading stuff is easy, you think.

So instead of risking 1% on every trade, like your instructor recommends, you start risking more.

Maybe 5% on some trades.

But you risk 10% only on trades that you are really sure about.

It won't be long until you turn that $500 into $100,000!

You Blow Out Your Account. Explosion. Then it happens. You take too much risk on a trade, forget to use a stop loss and when you are at work…BAAAM! You get an alert on your phone, telling you that you just had a margin call. All of your trading capital is gone.

So now what?

The Search Begins For a Trading Robot (EA)

Trading robot

You fund your trading account again, but this time you are going to be smart. Since you cannot check your trades while you are at work, you will get a trading robot to take care of your trades for you.

So you get back onto the internets and pick out a couple of Expert Advisors that look promising. You load them onto a VPS and let them rip.

Guess what?! They actually start making money…in the first week.

Now that your trading income is "on autopilot," thanks to your EAs, you decided to branch out into other areas of income generation.

At this point, you tell your friends and family that you have finally figured out this trading thing.

You Do the Other Things Too

Remember those other money-making opportunities that you found at the office? Why not explore those too?

So you start going to real estate investing meetings and even try your hand at online marketing. These activities distract you from your trading and you lose focus.

I call these activities green fairies because they tempt you with the lure of making more money, but they fly away as quickly as they came.

Around this time, your EAs usually starts to crap out. It usually begins with the robots trading flat.

Losing a few trades, winning a few trades, then losing again. Then they start to lose more money than usual.

What's going on here?

You finally realize that if you don't know how an EA works, you don't know when it has stopped working. So you pull the plug on your automated trading and re-commit to learning to trade for yourself again.

Welcome to the Trading Silodrome

Thus begins the cycle I call the Trading Silodrome. You jump from course to course and trading system to trading system, in search of your holy grail. This phase can last months or even years. Every time you lose money with a trading system, you think that it's the trading system's fault. So you keep paying for courses, hoping that the next one will finally be the one that leads you to the Promised Land.

Rock Bottom

After a while, system hopping gets tiring. Right about now, you are at rock bottom and are questioning if trading is right for you or not. This is where most people quit and crawl back to their cubicles.

Now you have a decision to make…

Admit defeat, or keep going?

You have always succeeded at what you set your mind to, so you keep going…

The Search Begins for a Money Manager

Money manager

Wouldn't it be great if you could get a professional money manager to trade your money for you?

Instead of having a mindless robot trade your money, you decide to find a professional money manager.

Yeah, that's the ticket!

So you split your remaining risk capital between two traders, John and Roger.

Well, John turns out to be a crook like this guy and last you heard, the authorities were chasing him through South America.

Roger is actually a really good trader. But the technology that copies his trades into your account screws up and you end up losing money, instead of making the 10% that Roger made last month.

You decide that getting a money manager isn't always all it's cracked up to be.

Back to square one.

You Find a Mentor

Determined to figure this thing out, you assess your options.

At this point, you have tried a lot of different things.

So what's left?

Get a mentor of course.

So you look around for the most successful trader you can find and schedule a private mentoring session. It costs $200 an hour, but you figure it's worth it.

The first mentor doesn't work out, so you try another.

Then another. You are back on the Trading Silodrome again, but this time it's costing a lot more money.

But what else is there?

You Figure Out Your Trading Personality and Trade with It

You are just about ready to give up, then it hits you!

There are some trading systems that you absolutely hate to trade and others that you are sure you could figure out, if given enough time and coaching.

Now you go back through all of the notes that you collected over the years, from your trading courses and private mentoring.

Which ones appealed to you the most? You revisit those and start to learn how to back test and forward test. You figure out which ones match your personality and lifestyle.

That's when this usually start to click.

But if you did this in the beginning, you could have saved yourself a world of hurt.

Conclusion

As you can see, starting with understanding your personality, instead of only learning trading systems, can have a huge payoff.

But most traders don't do it that way. I don't blame them, it goes against human nature. It goes against how trading was traditionally taught.

Hopefully, now that you understand the right way to do it, this will help you improve your trading faster.

If you have been through the entire process, is that about right? If you haven't, then where are you in the process?

I do not want to waste your precious time and even my time. Time is money and I damn care a lot about saving my time. I believe it does not matter which timeframe you are trading or which strategy you are using. I do not want to argue which method is best. We leave everything on time and market to decide these factors for us. All I want to say that no trading system is superior to another system. Everyone should find a trading system that fits their personality. What the heck does it mean? Fits your personality? Well you can interpret this phrase in simple words. If you are trading based on what you learnt from a book or some internet blog or some fancy course and you are blindly following that system without any logic or rationale attached to it then you are likely to fail. What works for others, may not necessarily work for you. One man's strength is other man's weakness. One man's success is other man's failure. It all comes down to what fits your personality. If you can't explain your trading system to yourself then this means you are just setting yourself up for a huge failure. Think this way: "You heard a news that it will rain today but you saw the sky is clear and it is sunny with no signs of probability of raining today. You will be fool to live to the expectation that it will rain today". Does this make sense to you? What you perceive from others and blindly follow it then you are living in illusion but what you perceive from others and you are able to explain that perception to yourself then you are closer to reality. Choose a trading system that justifies your rationale, logic and is explainable to your own self. That is what I actually mean by finding a system that fits your personality. I believe that a trader must try every system that he can get his hands onto. Let it be Harmonics, Elliot Waves, VSA, etc. Then he must do some back testing, forward testing and try to logically understand how the trading system works and under what conditions it works and fails. He must start by explaining the trading system to himself and then try to fit his rationale and logic to it. If the system validates his logic and rationale then he must chose that system as

it fits his personality otherwise he must discard it and carry on his research of the system that eventually fits his personality. Let me give you a simple example: If you are a footballer and your speciality is defending then would it make any sense to get training from Messy? Or you must find a good defender to train you? If you can answer this question then it means you have clearly understood the message I am trying to give you above.

Trading Affirmations: to improve your trading psychology

Positive affirmations work – in all areas of our life, including trading financial markets! Talk to any life coach, mentor or motivational speaker (the ones who actually have some form of credentials!) and they will most likely tell you that they are useful in helping to manifest your goals and bring about positive and permanent change to your life...in whatever area you so desire. Why should trading financial markets be an exception? We have trading affirmations too!

An affirmation is every word and inner dialogue you have and are generally present to the subconscious mind and they help to construct our life experience. Some do this positively, others negatively. Bearing this in mind, it is a very useful exercise to programme the mind so that not only can you feel better about who you are and what you do, you can also manifest the changes in your life that you so desire.

Affirmations can work in any situation. Whether it's affirmations for love, self-esteem, success, or health...you can be rest assured you can come up with your own in order to quash old beliefs that may have hindered you and manifest real change in your life.

They can enable you to achieve the life you've always wanted for yourself!

Here are some rule-based, positive trading affirmations. I have modelled on the common habits of the winning minority of profitable traders and what they do to obtain their consistency.

Repeat these trading affirmations daily in front of the mirror and see how they can help dramatically improve you and your trading.

Trading Affirmations #1:

"I am a successful and profitable trader". Make this statement your first affirmation as this sets the frame for the following rule-based affirmations which are all cornerstones to successful trading. Even if you are not yet consistently profitable, say it. Do NOT say it in the future tense, ie: "I will become a successful trader," as you will be nudging this end-game objective into the distance every time you say it...very much like dangling a carrot in front of a donkey, or even a heavy smoker perpetually saying that they will give up the habit "tomorrow".

Trading Affirmations #2:

"I have full belief in my strategy". If you are trading a strategy that resonates with your personality, availability to trade and has been back tested and forward tested to be consistently profitable over a number of years, then what is not to like?

Trading Affirmations #3:

"I will trade according to my strategy's rules and not gut feeling". Stick to your strategy! After all, the very strategy you have belief in (which dictates your rules for entry, management and exit) are powerful filters designed to keep you away from whimsically trading the market "noise" which many rookies are seduced into trading. Accept that the market can do anything ay anytime and that 'gut feeling' is not a sufficient reason to overrule a profitable trading strategy...not least the one you chose to trade as you have belief in it!

Trading Affirmations #4:

"I will be fully accountable to for my actions in the market". You are master of your own destiny, from choosing to pursue trading in the first place, to selecting the strategy which works for you to executing it according to its rules.

If you place a trade based on a set-up outside of your strategy and it loses money, it's a bad trade and you are to blame. After all, you pulled the trigger and made the decision to place it. Conversely, if you placed a trade which, again, wasn't based on your rules and it made you money, it is still a "bad trade". This is because even though you've enjoyed the process of making money, you have subconsciously communicated to your brain that it's ok to do that and you will be far more likely to do this again, perpetuating what is often a vicious circle.

Trading Affirmations #5:

"I keep a journal of all of my trades – both losers and winners". Many see this as a tiresome and laborious process...and, boy, it is! However, if you keep a log of your trades and their outcomes, then you're far more likely to stick to your plan and be

accountable for your own actions. After all, your written trade journal is a reflection on your ability to demonstrate you are a successful and profitable trader over the long-term...by trading set-ups which fully conform to the rules of the strategy you have belief in and have chosen to trade.

Trading Affirmations #6:

"I always keep the trade risk low" (i.e.: 1-2% of account value). The success of any given strategy is determined over as sample of trades – the bigger the sample the more representative it will be. In order for back testing and forward testing results to be as scientific as possible (and to get a clearer perspective as possible as to its success), it makes sense to risk the same amount for each and every trade you take. You should always keep the risk low as there is nothing worse than watching the fluctuating balance of your trading account when you know you have risked big amount based on feeling.

This is especially the case when you consider how there is no guaranteed outcome for a trade set-up, no matter how good it looks!

Trading Affirmations #7:

"If there is no set-up based on my strategy I happily stay out of the market to preserve my capital". It's ok not to place a trade if the rules to your strategy are not met. A lot of have-a-go traders (who ultimately blow up their account) self-sabotage by endeavouring to have a trade running all the time as they feel that the more trades they place, the more money they will make. This is simply hogwash! It is often the trades you don't take are the ones that make you the money – the trades which may not fulfil the rules of your strategy but you may "feel" are worth "taking a punt" on. Leave them well alone! Unknown to many, the first objective for professional traders is to breakeven, then make a profit. In order to make a profit regularly, they must have an edge in the market and this is through sticking to rigidly to a strategy. Accept a day/week when there are no trade-setups as a worthwhile money saving exercise rather than getting frustrated and placing a trade out of boredom.

Trading Affirmations #8:

"I only follow trades with a high reward/risk". By trading trade set-ups which are high in reward (while keeping the risk low), not only are you are making the trade more worthwhile you can also have console yourself with the fact that if the trade goes your way, you are set to make a lot more than you can potentially lose...but if you lose, at least this is kept to a small fraction of your account. By selecting trade set-ups with, say, a 3:1 reward/risk profile (targeting 3% of profit potential by risking only 1% of your account), you can also afford to trade fewer trades and be yet more discerning in your trade selection.

Trading Affirmations #9:

"I choose trading for long term gain rather than a quick buck". Be realistic in your expectations from trading and accept that and small percentage gains made on your trading account over the long term in a conservative fashion are far more desirable, and stable, than making a wild percentage gain only to be followed by a heckle-raising drawdown. Which would you prefer? Consider that the bigger the percentage gain the strategy may make you, the bigger the drawdown will also be.

Remember that the percentage gain or loss touted by a "system" or strategy is not representative unless it has at least 5 years of back testing results to demonstrate that it has at least stood the test of time in a variety of different market conditions.

Unfortunately there are a lot of scammy products and services in this industry which publish jaw-dropping returns, but are very selective in the date given!

Treat learning to trade as a skill-set learned and developed over the course of year(s) very much like a university degree. Do you think that a heart surgeon mastered surgery in his spare bedroom in his free time?!

Trading Affirmations #10:

"I shall not have an emotional attachment to the outcome of my trades". Simply place the trade and let go...assured by the fact if the trade does go in your favour then you are set to make potentially a lot more than if it goes against you, thanks to our selection of trades with a reward potential. Too many people self-sabotage by watching their losing trades by crossing their fingers and legs in the hope it will go

in their favour without accepting that some battles should be lost in order to win the war.

Trading Affirmations #11:

Other people's beliefs, news and fundamentals will not affect my trading decisions. Every Tom, Dick and Harry will have an opinion about there they think the market will go or where they think the market will turn next. But do they trade your strategy or your timeframe? Are they one of those people who only crow about their winning trades and never their losers? It's crucial that you stick to your guns and trade the rules according to your chosen strategy. Turn off Bloomberg and fold that newspaper away as they will only serve to be a distraction. If someone influences your trading decision and you ultimately lose money, it will still be your fault.

Trading Affirmations #12:

I shall base my trading decision on probabilities, trading what I see and not what I think. Don't fall into the temptation of trying to over analyse the market too by looking at fundamental data and reading news reports. This is analysis paralysis. We are technical traders after all, using technical analysis to gauge the probability the market turning in any given direction and this is based solely on what we see on the chart in the moment. After all, when our consistently profitably strategy was back tested on the charts you can be assured that this was done based on price action and not the news released which may have been released at the same time.

Trading Affirmations #13:

The market is irrational and can do anything at any time. The market doesn't owe anyone anything, apart from those who are disciplined to play the odds by following rules over the long-term. Just because you've told yourself turned up on time to the London open, it doesn't mean she will smile on you...no matter how much you've brushed up on your homework! The market can do anything at any time, and as profitable and successful traders we need to accept that our chosen edge is what will keep us going in the long-run, through the inevitable drawdowns and percentage gains along the way.

Why Forex trading discipline is important?

Forex market is a very attractive place for novice traders. Many of them join the retail Forex industry every day. However, many of those newcomers often fail to make it in Forex.

Why is this happening?

The reasons are numerous, but there probably two of the most important.

First, many newbies lack trading discipline and patience. Second, they cannot assess risk potential and apply their risk management.

Usually, traders believe that development of a Forex strategy is the most important thing to do and invest their efforts into it, forgetting about Forex trading discipline. While a good strategy is important, being able to actually carry it out is even more crucial for a trader.

In this article, I will describe the role of patience in successful Forex trading and how to practice it.

Rules of Forex trading discipline

Successful Forex trading requires a successful trading strategy, competence to amend it according to market movements, and, certainly, proper strategy execution. Such proper execution relies mostly on trading discipline, and most of investors believe that this is one of the core abilities of a successful Forex trader. The question is how to breed this discipline in your trading? There are three major rules that can guide you on how to understand and apply the Forex trading discipline.

Develop a plan

It can be said about any discipline that it involves not only following of certain rules, but also the development of this very set of rules. The first thing to start with when enhancing your trading discipline is a plan. You can use any methodology available for its creation, but the plan of your trading activities should follow the guidelines below:

- Set your entry signals precisely
- Define your exit signals clearly
- Prescribe maximum amount of trades per day, per week, and per month
- Set a list of trading instruments
- Define you trading hours
- Decide on maximum duration of your trade
- Select minimum duration of your trade

Listing the rules you need to abide by helps you to improve your Forex discipline. In addition to trading guidelines, your analysing of the market should be also marked in the trading plan to see if it fits there.

As soon as you get to the practice of online Forex trading, make sure you follow the plan. All the items of the plan that you have set for yourself – trading frequency, entry and exit signals, trading instrument to use – must be now put into practice. Having the rules developed is not enough; you need to be able to follow them in order to become a successful Forex trader.

Abide by a stop-loss

It is difficult to overestimate the importance of this when learning how to become a disciplined Forex trader. In the process of trading knowing your exact stop-loss level is crucial. You have to set it before opening a position and never lower it during the trade. Certainly, if a trade does not look profitable at all, you can close it off before hitting your stop-loss level.

However, learn how to resist the temptation of lowering your stop-loss simply for the sake of keeping this position open.

Although this sounds simple, it's a crucial element of Forex trading. Seasoned investors know that the more you trade, the more you will have situations when you would hope that a losing position will turn into a profitable one. This happens because it is generally difficult for traders to accept failure and close a trade with a loss.

This is why you must set your stop-loss strictly – it facilitates the very moment of closing the position from psychological standpoint, as the closure is conducted automatically. As long as you might be emotional during a trade, especially a losing one, never allow yourself changing your stop-loss after opening the position.

You can, however, modify it when you sit down and analyse the market and your results with clear mind.

It is a bit different with take-profit levels. For beginners, it is recommended that a take-profit level is fixed for every trade.

Try not to modify it even if you think that the market will continue going in your direction. Take-profits can be amended when you become a more experienced trader, especially if you know by that time how to set your stop-loss to bring profits as well.

As a rule, regardless of your level of trading proficiency, it is advised to only commit to a trade if you have your profit target set.

Schedule your trading

Another foundation for developing Forex trading patience and discipline is a trading schedule. Decide on the best times for your Forex trading and stick to them. Train yourself not to trade outside of this set time period.

For instance, if your plan says you should trade along with London, start when London opens and end when it closes. There might be a temptation to continue trading after that, for you might think of some more investment opportunities ahead.

However, try and resist it, because other markets might behave differently due to economic and market peculiarities you are not aware of. This, of course, may lead to losses in your unplanned trade.

Then, decide on your trading limits. This means setting a certain number of trades that you allow yourself within a certain period of time and never exceed it. The time period should be considered according to your trading strategy. Thus, intraday traders limit themselves to a day, and medium-term investors think of this in terms of a weekly or a monthly period.

This practice is crucial for developing discipline in Forex trading, because at times when you lose money in your trades, you would most probably want to open new positions to compensate the loss.

By doing so, traders tend to focus on wrong things and take unnecessary risks, which undermines their risk management plans.

Patience in Forex trading

Patience is another important quality that every trader must strive to. It might seem similar to discipline, but they differ. When you trade FX online, sometimes you might be tempted to close winning trades too early in order to take the profit or prevent this trade from losses. This might also happen to you when a winning trade decreases it profit.

In general, trading itself is quite simple, but being patient might require some effort. Let's look at the ways of improving patience for your FX experience.

The first step to enhance patience is to take away the fear. After you have made a decision on certain trade, do not let anything make you doubt it. When, for instance, you just opened a EUR/USD short and there come several upward candles, do not hurry to close your trade.

On the other hand, if some surprising news is released, you might take a hint on when to close your position. For these purposes, you should keep in mind the exact levels of losses you might take and minimal profit you seek for each trade.

Other than these, market fluctuations should not affect your decision. If you stick to this practice, your Forex patience will definitely go up.

Then, assessment of your winning trades is another important step towards FX market patience. When an opened position is almost reaching the take-profit level, you might want to close it in order to grab your profit immediately.

Well, if you do so, you will, but with this you do not let your trade reach its full potential. This is also a loss – on further profit. In this case you might want to set your stop-loss to a minimal level of profit for this position and amend your take-profit to a level where the trend line will reach, on your opinion.

If needed, this can be fulfilled several times per trade. Although this is a violation of the above idea of a trading plan, such strategy is a good instrument for seasoned traders as it teaches how to be disciplined in Forex trading.

Summary

Now, after learning these fundamentals about how to become more patient and disciplined FX trader, go and try to implement them in practice. Do some market analysis first, and then create your trading plan for next week. For that you will need to select your trading instruments, decide on entry and exit signals, set the levels of stop-loss and take-profit, as well as the number of trades you intend to carry out at most.

For all of the above you would need a trading account. You can open a live account with Admiral Markets or start from paper trading by setting up a demo account. We believe you are ready to apply you knowledge now, so enjoy your trading!

Besides the market knowledge, traders need to have a certain psychological profile to be successful in their career. Picture a person who has to take swift decisions and stick to the strategy, while showing as little emotion as possible. Most likely, this person doesn't even exist. However, this doesn't mean you can't achieve the same results - especially if you've got automated trading at your side. But let's take one thing at a time. The worst of the human emotions that will definitely mess up your trading is greed. When you make money, you want to make more money. This is human nature - we want to improve and greed is just our way of saying we can do better. Another strong emotion is fear - fear of success, failure, mistake and consequences. Fear can lead to bad decisions - from selling too early to buying too late. You may feel like fear will never go away, but here's where knowledge comes into play. The more information you have, the more trust you have in your strategy - and the calmer you can act.

RISK MANAGEMENT

Does capitalization really matter?

Perhaps one of the first few questions asked by beginner traders is how much capital they would need to open a forex trading account. Thanks to the introduction of online forex trading and the proliferation of several brokers, the barriers to entry in this market have been significantly lowered that you can open a trading account for as low as $25!

Now before you start dreaming of making billions with a micro account, you should remember that it takes money to make money. Not only does this cover the actual balance you will deposit with your broker, but this should also cover expenses for trading education, software, and tools.

There are several forex websites that offer free education though so beginner traders can be able to understand the basics without having to cough up a large sum of money. Others prefer to undergo coaching or a mentorship program in order to have a seasoned trader to guide them through the process and give advice on trades taken.

Most forex trading platforms already contain charts and the technical indicators, as well as a reliable economic calendar, yet some traders opt to subscribe to live market updates or invest in a more stable charting platform. Again, these depend on your preferences and how much you are willing to spend in your trading endeavour, although some free resources offer just about the same level of quality.

As for the actual trading capital, many recommend starting with an amount that you won't mind losing. Of course this is not to foretell that you will lose all your trading capital at the beginning, but it doesn't hurt to be prepared for the worst-case scenario. Besides, you should be trading an amount that you are comfortable with in order to prevent emotions such as the fear of losing from crippling you in your trade decisions.

Take note though that as some businesses fail due to undercapitalization, the same principle applies in forex trading. If you are not ready to risk real money on a live account just yet, you would be better off trading with a demo account first. Although this does not completely replicate the experience of trading live, this gives you the chance to build and refine your skills with no monetary risk at all. Once you are able to chalk up consistent returns, then you can be able to trade a live account from a much more knowledgeable position.

Understanding drawdown

Drawdown is defined as a considerable reduction in your account due to a series of losing trades. This can be calculated by getting the difference between the highest level of one's account and its lowest point. For instance, when you're initial capital of $10,000 has grown to $10,500 then you undergo a losing streak that brings it down to $9,500, your drawdown is $1,000.

Traders typically look at drawdown as a percentage of one's account balance. For instance, when you lose five trades in a row at 1% risk per trade, your drawdown is 5%.

Aside from looking at one's profit and loss in pips or percentages, drawdown also plays a key role in managing risk. This allows you to determine how much of your account you can stand to lose before being able to recover and land back in the green.

The truth is that traders will have their bad days every now and then, and it's not surprising if one undergoes a terrible losing streak. What's important is that you are able to manage your risk per trade and that you improve the expectancy on your trades such that a good winning trade can allow you to bounce back from most, if not all, of those losses.

For example, if you start with a $10,000 initial account balance and risk 10% per trade. If you undergo a losing streak of five consecutive trades, you will wind up losing half your account in just a few trades! You would need a really good winning trade or a set of profitable ones just to be able to make that amount back.

On the other hand, if you control your risk to just 2% per trade, undergoing a losing streak of five consecutive trades will just give you a manageable drawdown of 10%. If you are able to win a couple of 2-to-1 return-on-risk trades, then you will come close to recovering that drawdown in no time. As you've probably noticed, the reward ratio also plays a key role in determining how you can recover from drawdown.

This is a part of one's trading plan that must be developed based on risk preferences and trading styles. For instance, if you are a swing trader that prefers holding on to trades for days and keeping wide stops, you can afford to risk a full position size on a single trade or divided among a few trades. If you are a scalp trader that opens and closes multiple positions in minutes, you can risk small for each trade then just go for large reward-to-risk ratios in order to bounce back quickly from tiny losses.

At the end of the day, what matters is that you setup your risk management rules such that you can afford to trade again and hold on to most of your account even with a losing streak or a large drawdown. Of course it's also important to do your homework and improve the probability of winning by conducting thorough fundamental and technical analysis.

Reward-to-risk, Win Ratio, and Expectancy

As mentioned in the earlier sections, reward-to-risk, win ratio, and expectancy comprise an important aspect of risk management.

Reward-to-risk or return-or-risk refers to the ratio of the potential win on one's trade compared to the predetermined maximum loss. This is typically calculated based on the number of pips for one's profit target divided by the number of pips for one's stop loss.

For example, if you are going long GBP/USD at 1.7000 with a 100-pip stop and a profit target at 1.7300, your reward-to-risk ratio on this trade is 3:1. If you are shorting USD/JPY at 100.00 with a stop at 100.50 and a profit target at 95.00, your return-on-risk for this trade is 10:1.

Regardless of how much of your account your risk on a particular trade, the reward-to-risk is always based on the ratio of the profit target to your stop loss. Even if you risk 0.25% on a short USD/JPY trade at 100.00 or 1% of your account, if your stop is at 101.00 and your target is at 96.00, your reward-to-risk for both scenarios is 4:1.

It is important to pay attention to your reward-to-risk when taking trade setups to ensure that your winners are larger than your losing trades. It is generally recommended that trades must have at least 1:1 reward-to-risk. For some traders, they prefer taking trades that are at least 2:1 to make sure that they can make up for consecutive losing trades with fewer winning trades.

Another important aspect of risk management is the win ratio. This refers to the percentage of winning trades among all trades taken. For example, if you were able to take a total of 100 trades and won 60 of them, your win ratio or percentage is 60%.

Improving one's win ratio involves conducting fundamental and technical analysis in order to determine which setups have a higher probability of turning out to be winners. This also requires consistency and proper execution of your trade plans.

Combined with decent reward-to-risk ratios of at least 1:1 on each trade, you can be able to maximize your profitability in the longer run.

This is where the concept of expectancy comes in. Having a high win ratio doesn't necessarily guarantee longer-term trading success if your winning trades are often much smaller than your losing trades. An 80% win ratio isn't a guarantee of consistent profitability if your average win is at $10 while your average loss is at $200.

Expectancy takes into account your average reward-to-risk on your trades and juxtaposes it with your win ratio. In other words, it gives you an amount you stand to gain or lose for each dollar of risk. This is calculated by taking the product of your average winning trade and your win ratio then subtracting the product of your average losing trade and your probability of losing.

With a positive expectancy, you are able to add gradually to your account in the long run. With a negative expectancy, you wind up gradually depleting your account.

For instance, if a trader has a win ratio of 40% with an average win of $250 and an average loss of $100, the expectancy is $40. This means that he is able to add an average of $40 to his account for every trade taken.

On the other hand, if a trader has a win ratio of 60% with an average win of $100 and an average loss of $200, then his expectancy is -$20. This means that he is actually subtracting an average of $20 from his account for every trade taken.

What is leverage all about?

One of the biggest advantages to trading in the foreign exchange market is the ability to take advantage of leverage. This enables a trader to use a small deposit to control much larger contract volumes, allowing one to keep risk capital at a minimum while maximizing potential returns.

A forex broker that offers 50-to-1 leverage can allow a client to trade contract sizes of up to $50,000 for an initial capital of $1,000. A broker with 100:1 leverage can enable a trader with a $100 margin deposit to trade $10,000 worth of currencies.

While this sounds very appealing when profit scenarios are considered, bear in mind that leverage can also blow up one's account in an instant when risk isn't managed properly. In order to take advantage of the leverage offered by brokers, you need to allot part of your account to a margin deposit.

As leverage can compound your wins, it can also magnify your losses. This is why traders often call leverage as a double-edged sword or a two-way street. Some beginner traders are often blown out of the water at the start of their trading endeavour due to overleveraging or not completely understanding how to manage leverage or risk.

As mentioned earlier, margin refers to the "good faith" deposit placed with a broker to be able to trade a larger position and have the broker "borrow" the remaining balance. The broker usually pools these margin deposits with that of other traders in order to place its own margin under interbank trade transactions.

While leverage is often measured as a ratio of the amount that can be traded to the amount deposited, margin is measured in percentage terms. When the leverage is 100:1, the margin is 1%. When the leverage is 10:1, the margin is 10%.

These are some of the factors that are taken into consideration by most traders before opening an account with a broker. More seasoned traders and aggressive ones are more comfortable with a larger leverage, as this could allow them to boost their profit potential on their tried-and-tested trade strategies. Those who are just starting out or more conservative traders tend to go for brokers with lower leverage.

Margin is not to be confused with account margin, which refers to the total amount of money you have in your trading account. Used margin, meanwhile, stands for the amount of money that the broker is currently holding in order for you to be able to keep your trade positions open. The broker credits this amount back to your account when you close your position or undergo a margin call, a concept that will be discussed in the next section.

Leverage and Margin Calls

As discussed in the previous section, leverage can get tricky and may lead to margin calls when you don't know how to manage it properly. This section illustrates more examples on the common mistakes beginners make when handling leverage and how to avoid margin calls.

Let's say you have a balance of $10,000, which is initially equal to your equity and usable margin. Without taking any trades yet, your used margin is equal to $0.00. In the course of taking trades, your used margin will vary depending on how much you risk on the trade and your account leverage, but you will not have a margin call for as long as you equity is greater than your used margin.

Once your equity falls below your used margin, your broker will give you a margin call, which basically means that you have to put in more cash to sustain your positions or close your account altogether.

In a trade example, let's say your broker has a 1% margin requirement and you trade 1 lot of EUR/USD. Since you have a mini account, your used margin or margin required is $100 per lot. With that, usable margin is now at $10,000 minus $100 or $9,900 and used margin is at $100.

If you buy 80 lots of EUR/USD, you would wind up with a used margin of $100 multiplied by 80 lots or $8,000. That way, your usable margin is now at $10,000 minus $8,000, which is $2,000.

If price doesn't go in the direction of your trade, you could encounter a margin call once price goes 25 pips against you. This is because your used margin of $8,000 at $100 per lot means that for every pip of movement in EUR/USD translates to $80 in profit or loss. With $2,000 in usable margin, a 25-pip move against you or 25 multiplied by $80 could wipe out your usable margin.

When that margin call happens, you would be out of the trade and take the $2,000 loss on your account. Once the trade is closed, your equity and balance will be at $8,000 for a total loss of 20% on your account.

Bear in mind that EUR/USD can move by as much as 50 pips per day so there's a good chance that risking a large chunk of your account with a tight limit for encountering a margin call is almost guaranteed to lead to a loss.

Another factor you have to consider when avoiding margin calls is the spread offered by the broker. So if the spread on EUR/USD is at 2 pips, then price only has 25 pips minus 2 pips in leeway before resulting to a margin call in the previous example.

When you open an account with a forex broker, you should make sure that you read the fine print concerning leverage and margin. Bear in mind that your open positions could be liquidated by the broker when your used margin exceeds your equity so you should be fully aware of how these situations are handled, depending on the terms and conditions of opening a trading account.

Another way to avoid the dreaded margin call is to make sure that you make use of stop losses when you set your trades up. You should determine a line in the sand wherein your trade will be invalidated, and base your position risk on that value. This will be discussed in the succeeding sections.

Different Kinds of Stop Losses

Using stop losses is a recommended risk management practice, as this will allow you to set a point where you think your trade idea might be invalidated. From there, you can be able to calculate your position size based on how much you're willing to risk on the trade.

These calculations will be discussed in a latter section. For now, let's take a look at the different methods in which you can determine your stop loss.

One common kind of stop loss is the equity stop. This is also known as a percentage stop because it is determined as a part of the trader's account that he or she is comfortable with losing in case price action doesn't go in the trade's favour. This percentage value can vary from one trader to another, as this depends on the risk profile.

More aggressive traders can be comfortable with risking 10% of the account in a single trade while conservative ones might rather stick to 1% to 2% risk per trade. This value can also depend on the trader's confidence in a particular trade. Some traders risk a smaller amount of their account on countertrend setups while risking twice as much on trend-following setups since these might have a higher probability of winning.

Another kind of stop is the chart stop, which is commonly used by traders who look at technical analysis. This is based on price action and where the trader thinks that the trade idea will be invalidated.

For instance, if you are making a trade based on a trend line bounce, then you could set a chart stop below the trend line. Once that support area breaks, you can be sure that the uptrend is already invalid and that you need to get out of your trade. By setting a chart stop, the order will automatically be triggered even if you're not in front of your platform at that time.

If you are making a short trade based on a breakout, then you can set a stop loss above that support zone you thought would be broken. If you are making a long trade based on a breakout, you can have a stop below the resistance area you think might break.

The volatility stop is another kind of stop that is usually taken by more advanced traders. This takes into account how much a currency pair usually moves per day and sets a stop loss in pips based on that amount.

For instance, EUR/USD can move at an average of 100 pips each day so you can set a 100-pip stop loss from your entry, knowing that price doesn't usually go beyond that pip movement in a day. Technical indicators, such as Bollinger bands, can also take price volatility into account and these can be used to set volatility stops as well.

Lastly, the time stop can also come in handy, especially if you are a longer-term trader. This basically sets a limit on how long you plan to keep your trade open. If price is not moving in the direction you thought it would give the time limit you set, then you might be better off closing that trade and using your trading capital in another trade.

Common Mistakes in Setting Stops

While stop losses can help a trader prevent larger losses on his trading account, common usage mistakes might lead to a worse performance. Here are some of the ones that must be avoided.

One of the most common mistakes beginners make in setting stop losses is placing them too tight. Of course the fear of losing is still very much present among beginner traders or those who are just transitioning from demo to live trading, and it's no surprise when some are guilty of putting their stop losses too close to their entry levels.

While this seems to minimize losses in case the trade doesn't go in your favour, you also expose your trade to the possibility of getting wiped out right away before price even gains traction and eventually heads the way you thought it would. Bear in mind that price action for some currency pairs, such as GBP/USD or GBP/JPY, are usually more volatile than others so there's a chance that price could spike around first before picking a clearer direction.

Some traders opt to use a combination of a volatility and chart stop in order to avoid setting stops that are too tight. This comes in handy when trading currency crosses, which tend to be more volatile compared to major pairs. You can take into account the pair's average daily range or average weekly range in ensuring that your chart stops are beyond those pip amounts.

On the flip side, setting stops that are too wide is also another common mistake. While this ensures that the stop loss isn't likely to get hit anytime soon, this can lead you to trade position sizes that are too small and not be able to make the most out of your trade. In addition, this could lead to a small reward-to-risk ratio and negatively influence your trade expectancy.

Another common mistake in setting stops is using the position size as basis for stop losses. In fact, it should be the other way around, as the position size should be based on the stop loss and percentage risk per trade.

When you use the position size as the basis for calculating your stop, you are not able to take price action into account. Using a combination of an equity stop and a chart stop can be better for risk management if these elements are used as inputs in calculating your position size. This means that the number of lots you trade will be adjusted based on how much you are willing to risk and at which point you think the trade will be invalidated.

Perhaps one of the more overlooked stop loss mistakes is setting them right exactly on inflection points. Bear in mind that price could still have a chance at making a turn and heading in your direction upon testing support or resistance levels so it might be good practice to set a stop that's a few pips beyond these levels.

Proper Position Sizing

As discussed in the previous section, the use of an equity stop and a chart stop can be combined to calculate position sizes for each trade. Many beginner traders make the mistake of setting the position size first before determining the stop loss in pips, which can lead them to neglect price action.

Proper position sizing allows the trader to have just the right number of lots based on how much of the account he or she is willing to risk per trade and on the size of the stop based on past price action and volatility.

In order to calculate the right position size for each trade, one needs the following inputs: account balance, pip value of the pair you are trading, percentage of your account balance that you are willing to risk, and the stop loss in pips.

The calculation is simple when your account is denominated in the same currency as the counter currency of the pair you are trading. For example, this means having your account denominated in dollars when trading EUR/USD or GBP/USD. The calculation is also simpler if you have a GBP-denominated account and you are trading EUR/GBP.

In this case, you simply have to calculate the monetary value of your risk on the trade, based on the percentage risk and your current account balance. If you have a $10,000 account and you'd like to risk 1%, then the monetary value of your risk is $100.

From there, you divide the amount risked by the number of pips. If you are trading EUR/USD with a hundred-pip stop, then the amount risked per pip is $100 divided by 100 pips or $1/pip. After getting this figure, you then multiply it by the unit-to-pip value of the currency pair you are trading to get the position size.

There are additional steps involved when your account currency is different from the counter currency. However, you can always make use of pip value or position size calculators available on most trading platforms or educational websites.

What's important is that you use the percentage risk and chart stop as inputs to generate the position size and not the other way around. It takes practice to stick to this risk management habit and discipline to execute it regularly.

Scaling-in and Scaling-out

A more complex aspect of risk management is keeping track of several entries across different currency pairs. After all, it can be overwhelming when you are watching various setups with multiple entry points.

However, scaling in and out are practices often employed by more experienced traders, as it allows them to take advantage of price action and not miss out on any moves. Scaling in can also enable them to press their advantage if they are able to add to their winning positions. Meanwhile, scaling out can allow cutting losses or reduction of exposure ahead of market catalysts.

In particular, scaling in is often employed by traders who are seeing several potential points of entry. For instance, if you are using the Fibonacci tool to pick an entry in the direction of the trend but the different levels are in line with major or minor inflection points, you can set orders on each level instead of just having to pick one.

What's tricky about this trading style is that you also have to keep your risk management rules in mind before deciding on the position size to enter at each level. An easy way to go about it is to simply divide your risk percentage by the number of your desired entry levels before calculating the position size based on your stop losses.

Some traders opt to adjust their risk per entry by betting less of their account on the closest possible entries then risking more on farther entries. As mentioned, this depends on your risk profile and whether or not you can keep track of these multiple entries if they are all triggered.

Scaling in can also work to your advantage if you are trading breakouts and would like to add to your position if price keeps making new highs or new lows. For instance, if you predict that an upside break from a 500-pip symmetrical triangle will keep going, you can add to your position every 100 pips and adjust your stops accordingly.

During this course though, you should always be conscious of how much of your account is at risk every time you add. Don't forget to trail your stop if you'd like to protect your profits and if you'd like to stick to your initial level of risk.

Meanwhile, scaling out means gradually removing exposure, perhaps when a top-tier event is coming up or if you think that the price move is overdone. This way, you can be able to hold on to more profits in case price makes a reversal.

As with scaling in, make sure you are conscious of how much of your account is at risk at every instance. This skill takes some time to develop, as it could involve several calculations based on your adjusted stops and entries. At the same time, you should also keep track of your potential return-on-risk to see if it's worth adding or reducing your position.

These aspects must be pre-planned when you're coming up with your trade idea, as it is recommended to have a detailed strategy for various potential scenarios. This way you won't be surprised or caught off guard when markets make a strong move, and that you are in the position to take advantage of the resulting price action.

Managing Exposure with Correlated Trades

Another tricky component to risk management is the ability to control exposure with correlated trades. It's not uncommon to see similar technical setups among pairs with the same base or counter currency, so there may be instances when you'd wind up taking correlated trades.

For instance, you spot a rising channel on AUD/USD and you decide to set a buy order at the bottom of the channel. At the same time, you also saw an ascending trend line and bullish divergence on AUD/JPY so you also decide to take that trade. Meanwhile, EUR/AUD has shown a head and shoulders pattern and a possible neckline break, so you also set a short order below the support area.

When these three trades are all opened, then you will have three correlated trades that could either triple your win potential if the Australian dollar keeps rallying or triple your losses if AUD suddenly sells off.

In addition, you should also take note of currencies that share correlations with other majors. For instance, the euro and the Swiss franc tend to move in tandem, so a long EUR/USD and a short USD/CHF trade are often seen to be correlated as well.

It's not that traders are discouraged to take correlated trades, but it is imperative to be aware of how such currencies can move in the same direction. If you'd like to be cautious, then you can divide your risk for the number of correlated trades you are taken or simply scale down your position sizes if you think the pairs you are trading have close to the same probability of winning or losing.

Forex websites may contain correlation tables for major and exotic currency pairs, which can help one determine if any risk management adjustments must be made. Another option could be to hedge these multiple correlated positions with an opposite trade so that the losses can be minimized if the trades all don't go in your favour.

Something else to take note of when weighing currency correlations is the volatility of the pair you are trading. Bear in mind that some might move in your direction faster than other pairs, and when the move appears to be exhausted for some pairs, you could also think about reducing your exposure for the remaining trades that are still open.

At the end of the day though, these currency correlations are not set in stone. For instance, EUR/USD might be in for strong moves while EUR/JPY is in consolidation. In this case, one might conclude that the move was spurred by dollar action rather than euro movement.

These changes in correlations can be explained by shifting interest rate expectations or monetary policy biases, but it is always important to keep these at the back of your mind when you are taking trades with the same currency.

Incorporating Risk Management in Mechanical Systems

For some traders, the idea of having to think about risk management for every single trade can be tedious. This is why some traders opt to incorporate risk management rules in mechanical trading systems, which can automatically calculate stop losses and position sizes.

Mechanical trading systems have gained in popularity, as these can be capable of reducing the effect of human emotions in trading. It simply makes use of technical indicators set at pre-determined parameters and complying with entry and exit rules to generate trade setup signals.

More often than not, stop losses are also based on hard numbers or the volatility of the pair being traded. In some cases, stop losses can be based on technical indicators as well. For instance, some systems set an initial 50-pip stop or one that allows the trader to close the trade when a new crossover takes place.

This way, mechanical system traders no longer need to take a few minutes to map out their risk management decisions for every scenario of price action. Not only does this prevent human emotions of fear or greed from interfering, it also saves time for the trader.

This has given rise to the development of algorithmic trading systems, which are constructed using computer codes that can execute trades right on the platform without the trader having to constantly monitor price action. Of course this takes time and knowledge to develop, although the process can be outsourced to freelance programmers.

If you are interested to create your own system, you can start with figuring out which technical indicators you are most comfortable trading with. Note that it is not imperative that you know how these indicators are calculated, but it is important to have a basic understanding of what it reflects and how it helps predict price action.

From there, you can look at the time frame you'd like to trade. If you are comfortable with several trades being entered and exited in a short span of time, you can work with a scalp trading system on the 5-minute or 15-minute charts. If you'd rather stick to longer-term price action and would rather have few trade signals every now and then, using the daily or weekly time frames might work. Or if you're a mid-term trader, you can set your indicators on the 1-hour to 4-hour charts.

You also have to be able to decide if you want a trend-following or mean-reversion system. Moving averages are generally used for most trend-following systems yet the concept of mean reversion is applied using the oscillators. Again, what matters is that you are knowledgeable of the technical indicators you are using and that you are able to make adjustments if necessary.

Entry and exit rules must also be determined, and this can be based on hard numbers such as a 50-pip stop and 100-pip target for instance. You can conduct back tests and forward tests in order to figure out the optimal number for these exit points, so that you can also base your risk management rules on these as well.

Avoiding Forex Scams

With the growth in popularity of mechanical trading systems and algorithmic or "black box" trading, there have also been one too many instances of forex scams offered by firms claiming to give signal services.

Of course this is not to assume that forex signal services are automatically scams, but proper caution must be exercised in deciding to purchase one. The importance of learning the basics of forex trading and how the market moves must be emphasized even if one decides to use a forex signal service.

Online trading and the ease of opening an account these days have also opened up the case for fraudulent activities, so it is imperative that you do your proper research and read the fine print in any contracts you enter.

Another piece of data worth looking at is the back test results of the system you are looking to use. Although past performance is not a guarantee of future results, you can be able to gauge using the back test results if the system needs adjustment or stands to gain consistently profitable results in the future.

The availability of system back test results is already a point in favour of transparency for the signal service. Still, bear in mind that you should take these figures with a grain of salt as the owner can modify the numbers to his advantage. As the cliché goes, "better safe than sorry."

Not only are scammers present among signal services, but they could be lurking among forex brokers as well. With that, it is important that you park your hard-earned money with a reputable and regulated forex firm in order to prevent losing it completely to a scammer.

It is also important to take a look at the terms and conditions when opening a trading account, as this might contain important information regarding spreads and transactions costs. You don't want these factors to be eating up most of your trade profits later on!

Again, you should verify with the local financial industry regulators in your country to see if you are doing business with a registered broker. In Australia, the regulator is the Australian Securities and Investments Commission (ASIC), which

aims to maintain fairness in the financial market environment, which also includes insurance firms and lending companies.

Another way to check up on your potential broker's reputation is to do a quick online search to see the feedback of clients. Forex forums can also be wealthy sources of information on certain brokers.

Before opening a live account and trading real money, it might be better to start with a demo account first to get a good feel of how trades are executed. If you are comfortable with the platform, bid-ask spreads, and the speed of execution, then you could consider opening a live account with the same broker.

In the unfortunate scenario that you fall victim to a forex trading scam, you can be able to file a report to regulatory agencies in your country.

Introduction to technical analysis

In finance, technical analysis is an analysis methodology for forecasting the direction of prices through the study of past market data, primarily price and volume.

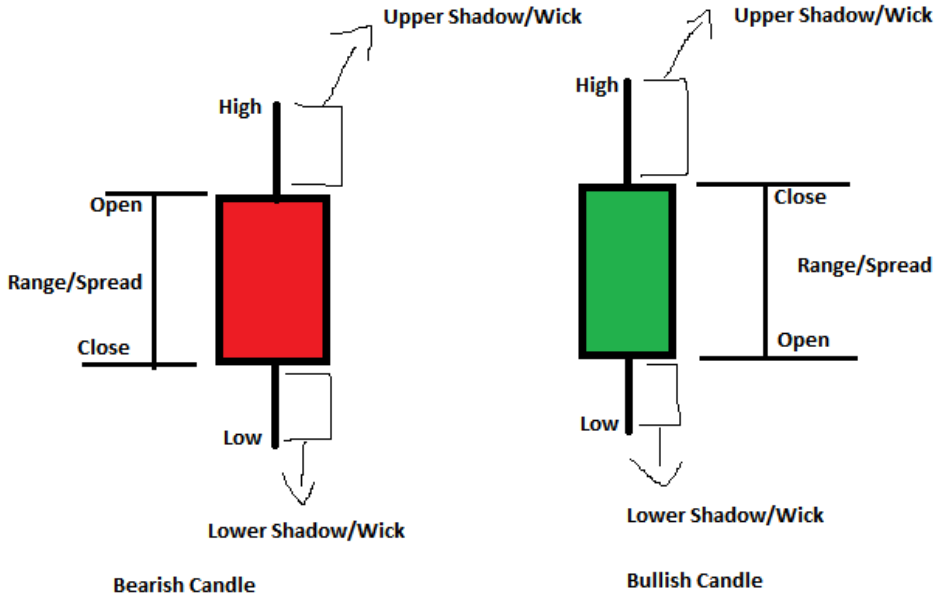
There are several ways to Quote Prices on a chart. These includes:

1) Japanese Candlestick Charts
2) Bar Chart
3) Line Chart
4) Heikin Ashi Chart
5) Point and Figures Chart
6) Renko Chart

We will use Japanese candlestick charts in our trading methodology.

Candlestick Charts was invested by a famous Japanese trader named Shimizu Seiki and it was introduced to the western world by Steve Nison.

We will now study the anatomy of candlestick chart:



In the above illustration:

Spread or Range = Difference between opening and closing price

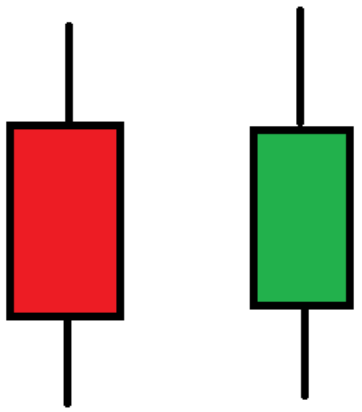
Bullish Candle = Bullish Candle is the term used for candle reflecting increasing price. Bullish Candle is often coloured either green or blue.

Bearish Candle = Bearish Candle is the term used for candle reflecting decreasing price. Bearish Candle is often coloured Red.

Single Candle in a candlestick chart reflects the price change of specified period of time. For example, if you are trading 5 mins chart or time frame then each candle represents 5 mins change in price. If you are trading 1 Hour Time Frame or chart then each candle represents 1 hour change in price.

Important Candlestick Patterns:

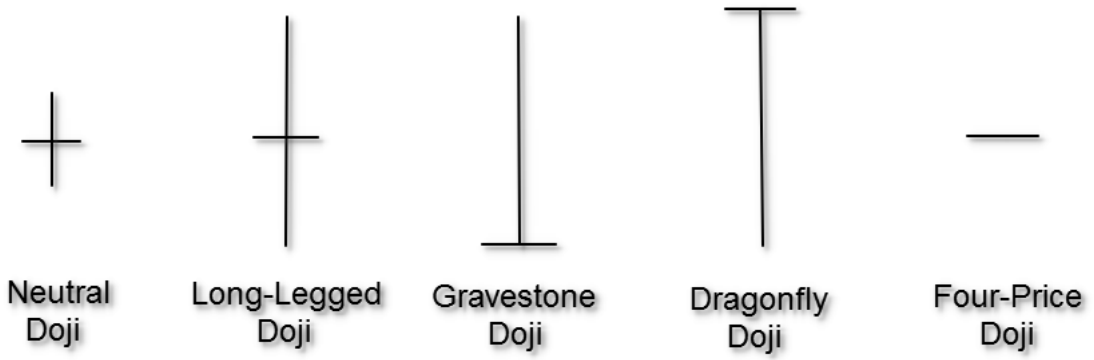
1) Standard Candle:



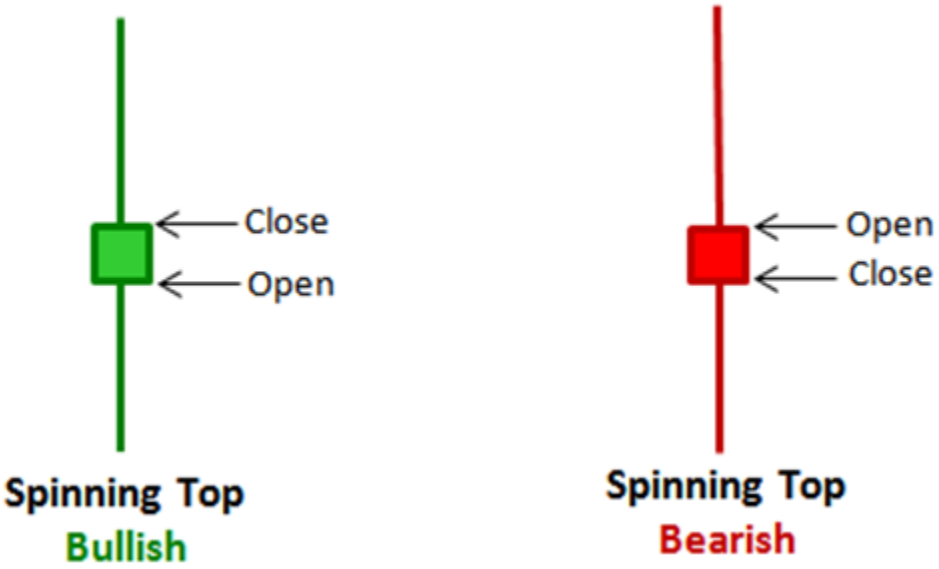
Bearish Standard Candle

Bullish Standard Candle

2) Doji Candles (Neutral Pattern)



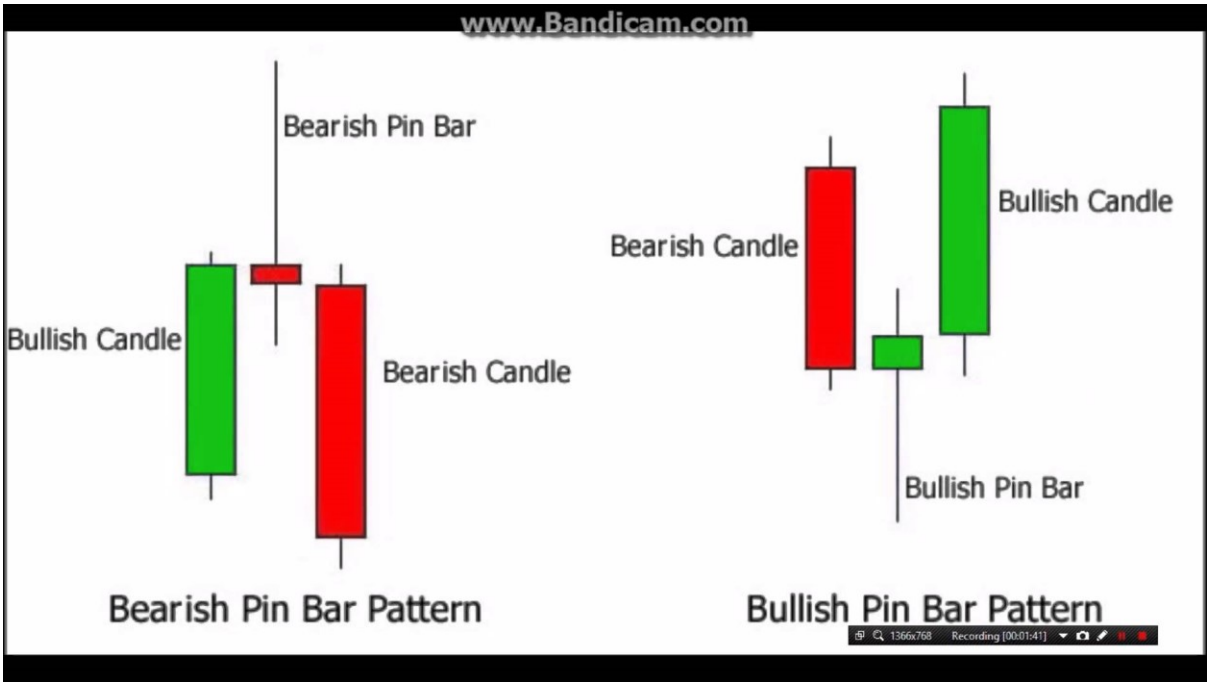
3) Spinning Tops Candles (Neutral Pattern)



4) Pin Bar Candles:

There are two types of pin bars;

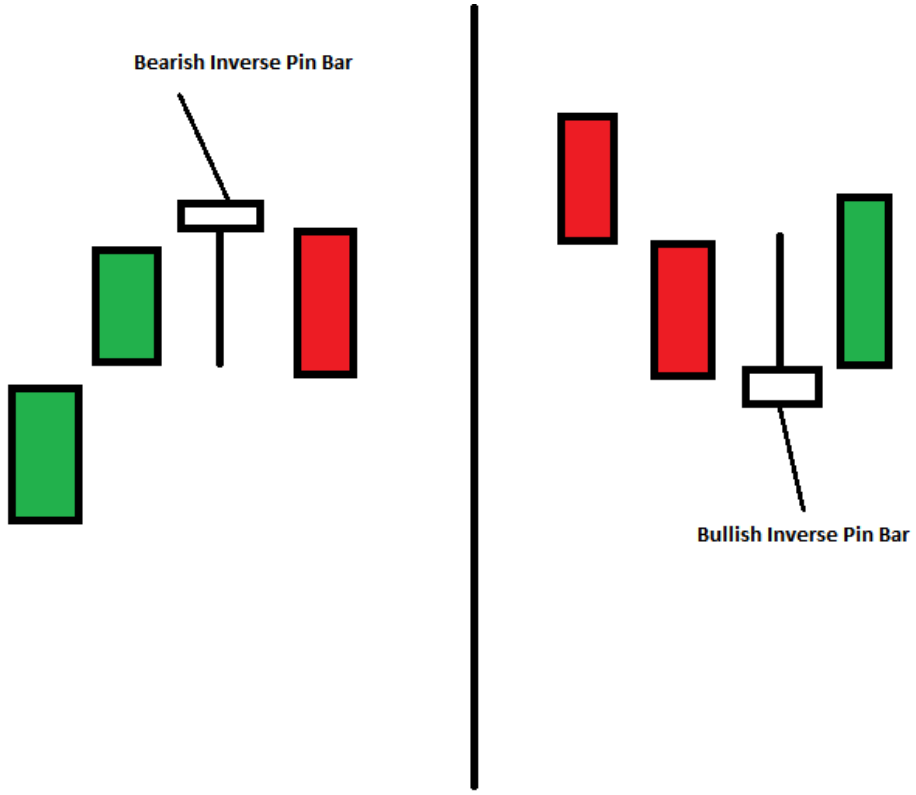
- Bearish Pin Bar: Bearish Pin Bar is formed in an uptrend. Bearish Pin Bar has low spreads body size and relatively huge upward wick/shadow which is 3 times the size of the body.
- Bullish Pin Bar is formed in a downtrend. Bullish Pin Bar has low spreads body size and relatively huge downward wick/shadow which is 3 times the size of the body.



5) Inverse Pin Bar:

There are two types of Inverse Pin Bars:

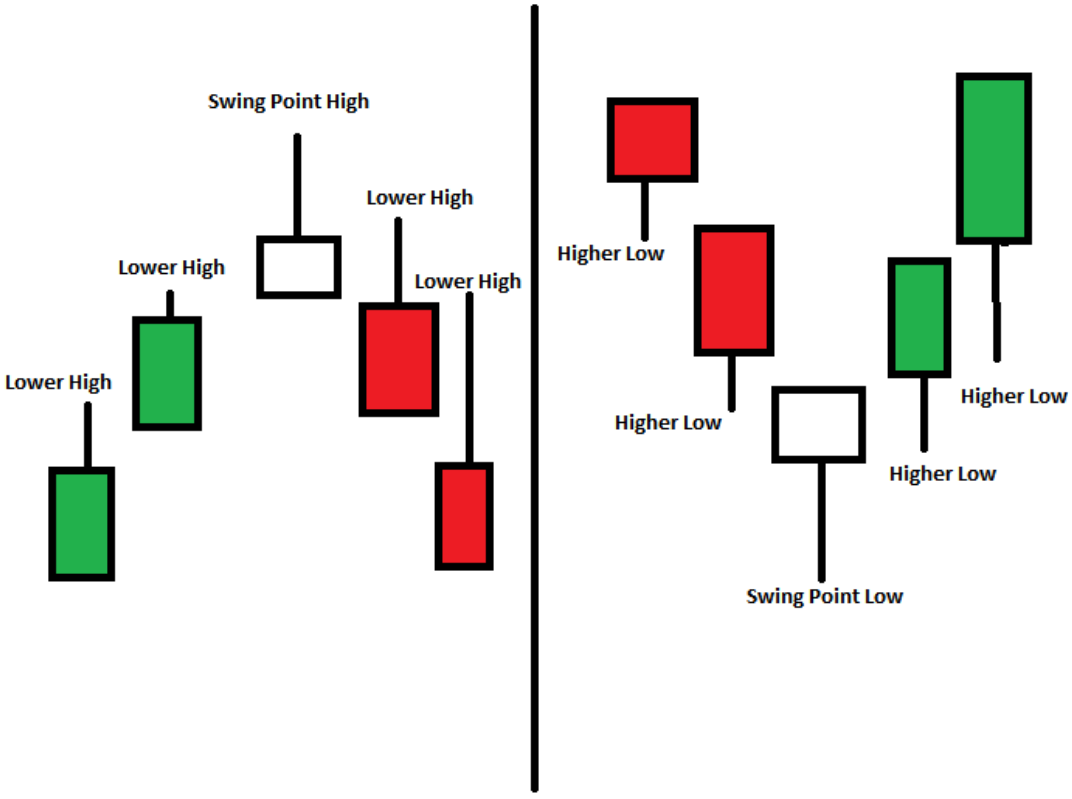
- Bearish Inverse Pin Bar: Bearish Inverse Pin Bar is formed in an uptrend. It has low spread candle body size and relatively huge downward wick/shadow which is 3 times larger than its body size.
- Bullish Inverse Pin Bar: Bullish Inverse Pin Bar is formed in a downtrend. It has low spread candle body size and relatively huge upward wick/shadow which is 3 times larger than its body size.

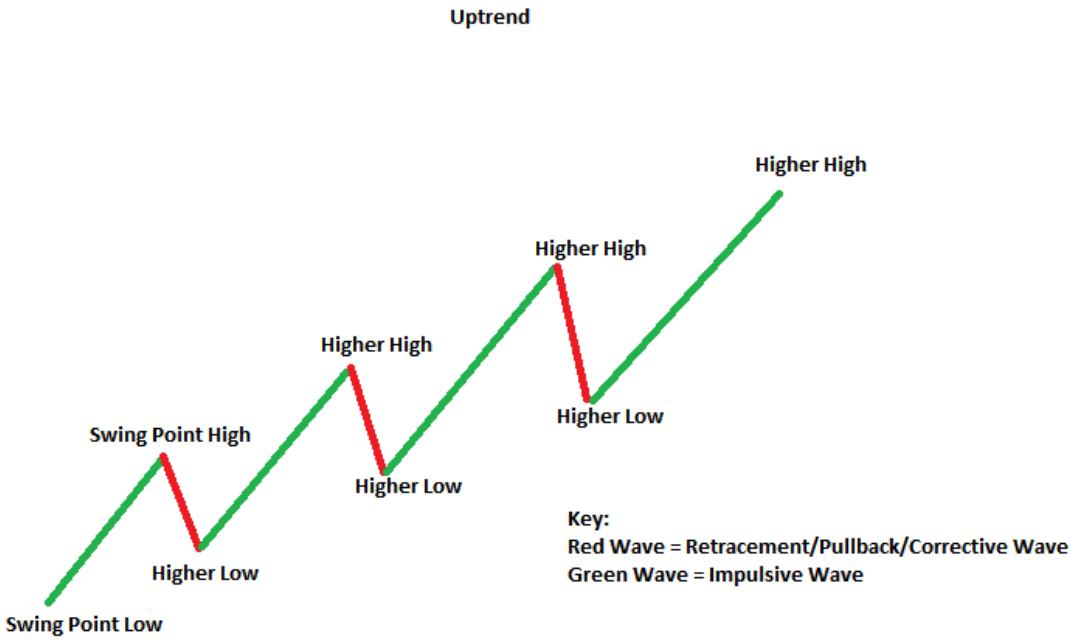


DOW Theory

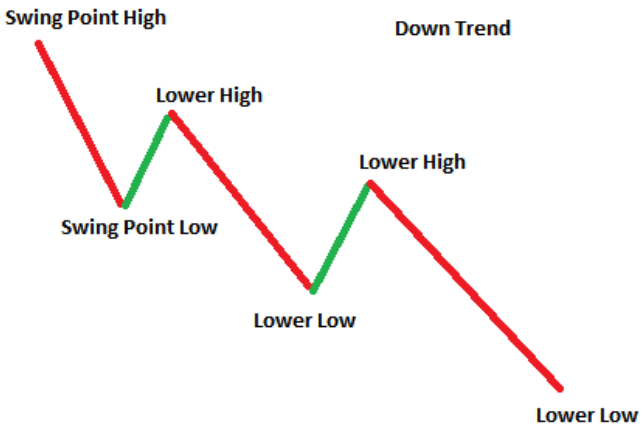
Dow Theory was developed by Charles Dow. This theory is the core of market structure. Dow Theory States the Following Principles:

1) Market structure is made up of Swing Point Highs, Swing Point Lows and the public participation. Swing Point high is the 5 candles patterns having Swing Point High preceded by two lower highs and proceeded by two lower highs as well. Swing Point Low is the 5 candles pattern having Swing Point Low preceded by two higher lows and proceeded by two higher lows as well.
2) The Market is said to be in uptrend when it makes higher highs and higher lows.
3) The Market is said to be in downtrend when it makes lower highs and lower lows.
4) The Market is said to be in Consolidation/Congestion when swing points pattern of an uptrend or down trend is disturbed.
5) Impulsive Move is in the direction of trend
6) Retracement/Pullback/Corrective move is against the direction of trend.
7) Impulsive Wave is greater in length than Corrective Wave.




Uptrend
Higher High
Higher High
Higher High
Swing Point High
Higher Low
Higher Low
Higher Low
Swing Point Low
Key:
Red Wave = Retracement/Pullback/Corrective Wave
Green Wave = Impulsive Wave


Uneeb published on TradingView.com, May 07, 2018 14:55 BST
FX:USDCAD, 60 1.28742 ▲ +0.00265 (+0.21%) O:1.28713 H:1.28773 L:1.28647 C:1.28742
= Higher Highs
= Higher Lows
Price is moving in an uptrend
making higher highs and higher lows
1.29000
1.28828
04:17
1.28634
1.28562
1.28540
1.28000
1.27500
1.27000
1.26500
1.26000
1.25500
18
19
20
23
24
25
26
Created with TradingView



Key:
Impulsive Wave is Marked in Red
Retracement/PullBack/Corrective Wave is marked in Green


Uneeb published on TradingView.com, May 07, 2018 15:20 BST
FX:USDCAD, 60 1.28685 ▲ +0.00208 (+0.16%) O:1.28727 H:1.28753 L:1.28635 C:1.28685
DownTrend
= Lower Lows
= Lower Highs
1.29500
1.29000
1.28500
1.28000
1.27500
1.27000
1.26500
1.26000
1.25689
39:12
12:00
Apr
4
12:00
9
11
12:00
16
18
Created with TradingView


Uneeb published on TradingView.com, May 07, 2018 15:28 BST
FX:USDCAD, 60 1.28639 ▲ +0.00162 (+0.13%) O:1.28727 H:1.28753 L:1.28589 C:1.28639
DownTrend
Consolidation
Uptrend
1.29500
1.29000
1.28500
1.28355
31:50
1.28000
1.27500
1.27000
1.26500
1.26000
1.25500
4
9
11
16
18
23
25
Created with TradingView

See the illustration above. The first phase was Downtrend as the price was making lower highs and lower lows. Then after some time price suddenly starts making similar lows and similar highs. The structure of lower highs and lower lows was disturbed here. This phase was consolidation phase. Then the price breaks out of the consolidation phase and once again the pattern of swings points is disturbed at this moment. Now Price starts making higher highs and higher lows. Thus, forming an uptrend. There are three phases in Dow Theory: Uptrend, Downtrend and Consolidation. During the phase change there is always the disturbance in Swing Points Pattern.

How to Identify a Trend Using Raw Price Action

I have always been a strong proponent of visual observation of the raw price action of a market, as you probably know. I also believe that simply observing a market's raw price action, from left to right, is the easiest and most effective way to identify a trend and to spot high-probability entries within it.

As a market moves higher or lower, its previous turning points, or swing points as I like to call them, become reference points that we can use to help us determine the trend of a market. The most basic way to identify a trend is to check and see if a market is making a pattern of higher highs and higher lows for an uptrend, or lower highs and lower lows for a downtrend. This is just plain old visual observation of a market's naturally occurring price action...no mumbo-jumbo trading systems or 'magic-bullets' here. I'd like you guys to take a look at this simple diagram that I drew below; it shows us the basic idea of looking for higher highs (HH) and higher lows (HL) for uptrends and lower highs (LH) and lower lows (LL) for downtrends:

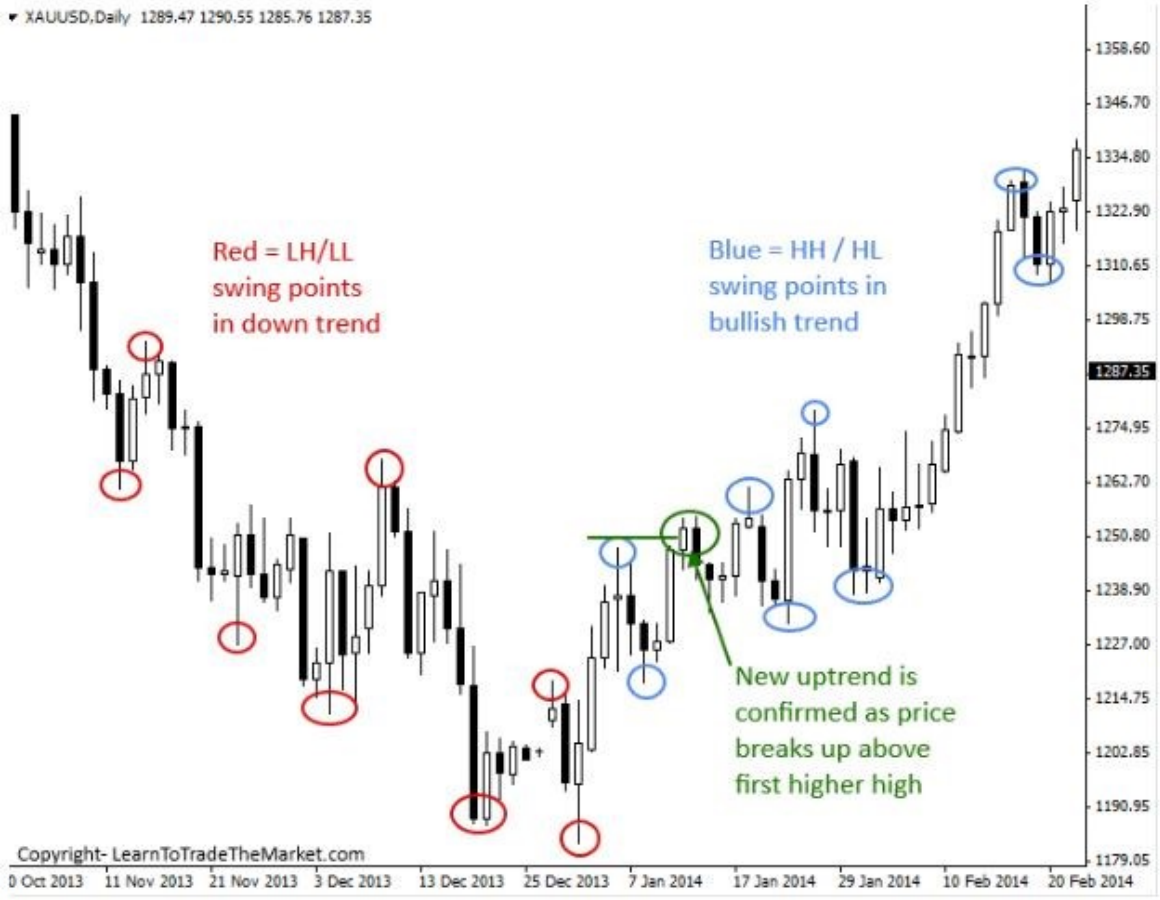
Note: each colored circle is highlighting what we would consider a 'swing point' in the market:



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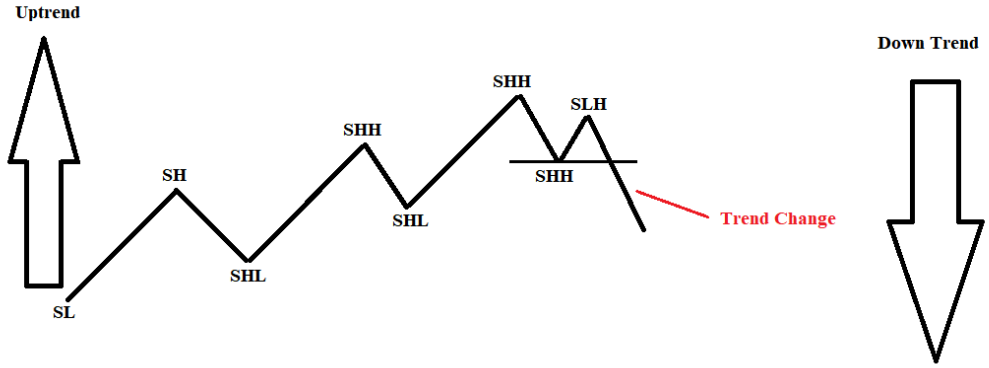
In the diagram above and chart below, you'll notice that in green I have marked where the trend changed from down to up. As price broke up above that first blue higher high (HH), a new uptrend was tentatively 'confirmed'. I say tentatively because you need to remember that nothing is 'for sure' in the market...a trend can begin and end quickly or it may persist for months. As traders, all we can do is trade what we see on the chart in front of us while also remembering market conditions can change in a flash, thus don't become overly attached to a particular position or idea....just look at the price action on the chart and act accordingly.

Here's a real chart example of what I just discussed in the diagram above. It's important to remember that in real-life trading, it will take you some screen time to get good at identifying trends and trend changes based on price action; not every situation will be as clean looking as the drawing I made above.



Thus, general observation of a market's swing points is the first point of call in determining if a market is trending. If you do not see a pattern of HH HL or LH LL, but instead you see sideways price movement with no obvious general up or down direction to it, then you are probably looking at a range-bound market or one that is simply chopping back and forth.

Tip: You shouldn't have to think *too* hard about whether a market is trending or not. Most traders make trend discovery WAY too difficult. If you take a common sense and patient approach, it's usually fairly obvious if a market is trending or not just by looking at the raw price action of its chart, from left to right. Make sure you mark the swing points on your chart, as it will draw your attention to them and help you see if there's a pattern of HH and HL or LH and LL, as discussed above.



This figure above shows that how to interpret trend change from uptrend to downtrend.

Trend Change From Uptrend to Down Trend Cases

Key

SL = Swing Low

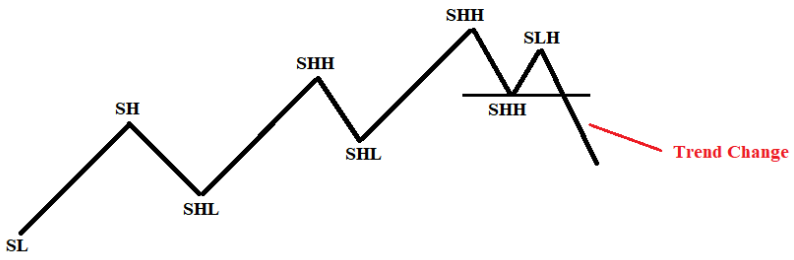
SH = Swing High

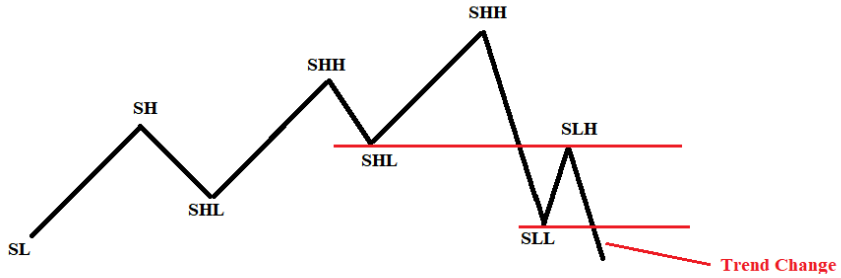
SHL = Swing Higher Low

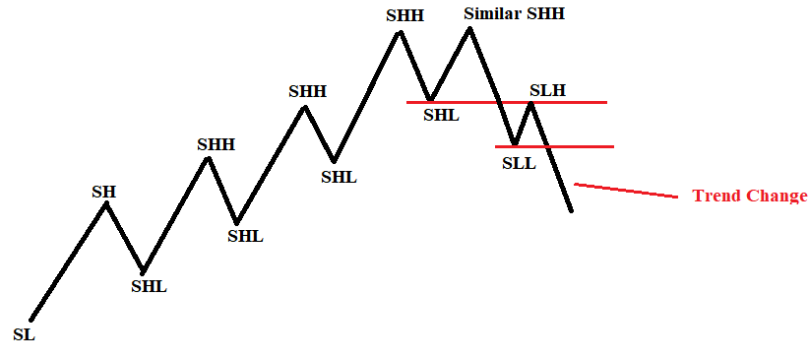
SLL = Swing Lower Low

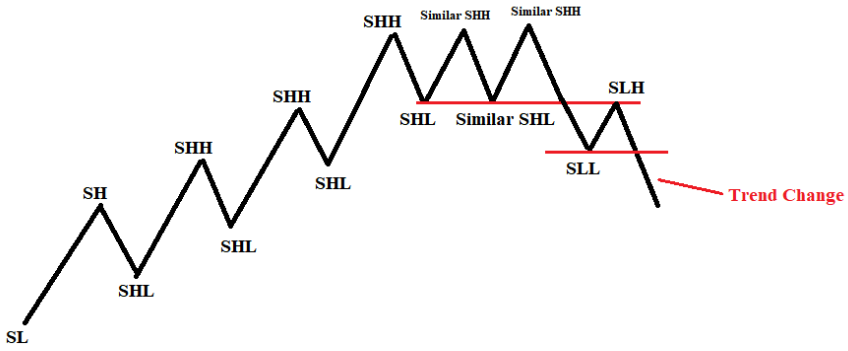
SHH = Swing Higher High

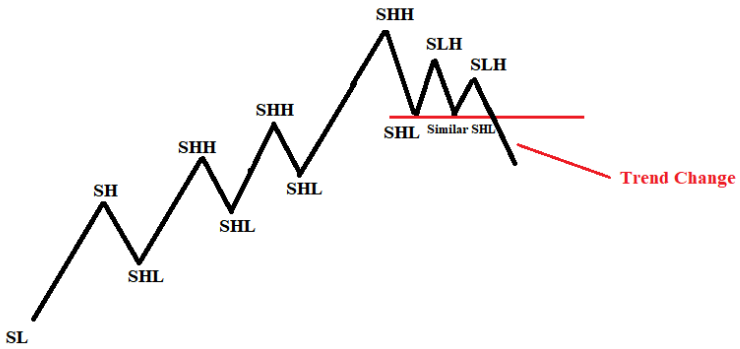
SLH = Swing Lower High

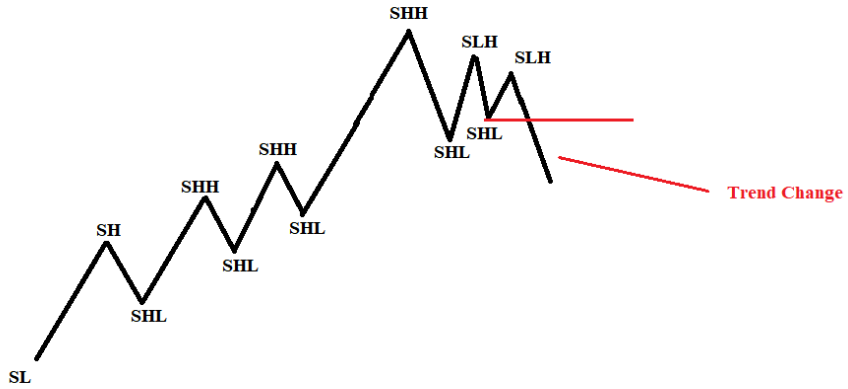



SHH
SHH
SH
SLH
SHL
SHL
SL
SLL
Trend Change


SHH
Similar SHH
SHH
SLH
SHL
SHH
SLL
SHL
SH
Trend Change
SHL
SL


SHH
Similar SHH
Similar SHH
SLH
SHH
SHL
Similar SHL
SHH
SH
SLL
SHL
SHL
Trend Change
SL


SHH
SLH
SLH
SHH
SHL
Similar SHL
SHH
SH
SHL
SHL
Trend Change
SL



In the illustrations given above, it can be seen that there might be various cases of uptrend changing to downtrend. The Key to identify the trend change from uptrend to downtrend is to understand the structures of swing points. In an uptrend price makes higher highs and higher lows. When we notice the Lower High after the series of Higher Highs then we need to look for the breakout of last swing point Low before the occurrence of Lower High in order to anticipate the trend change from uptrend to downtrend.

Trend Change From Downtrend to Uptrend Cases

Key

SL = Swing Low

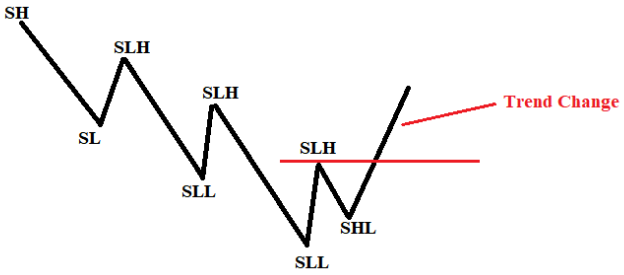
SH = Swing High

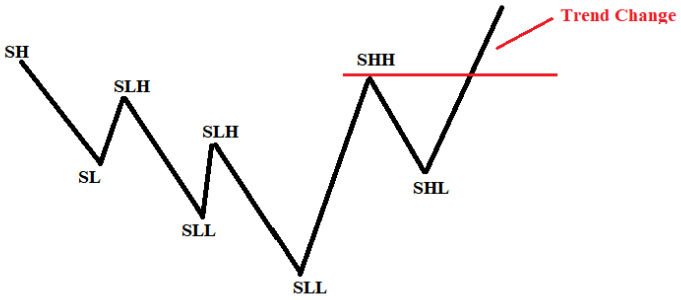
SHL = Swing Higher Low

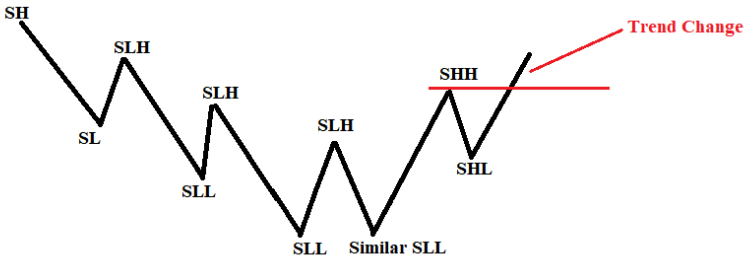
SLL = Swing Lower Low

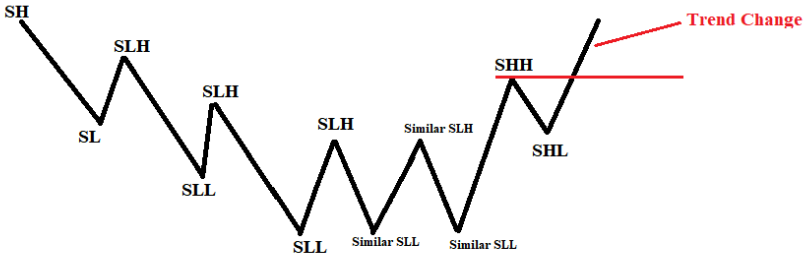
SHH = Swing Higher High

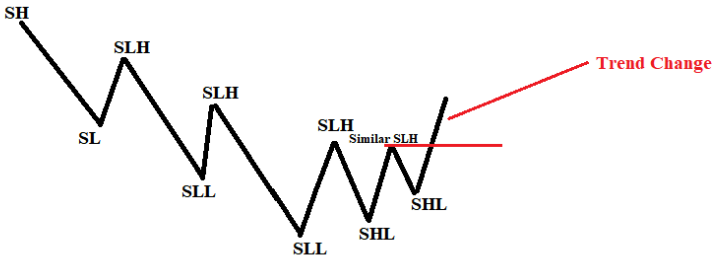
SLH = Swing Lower High

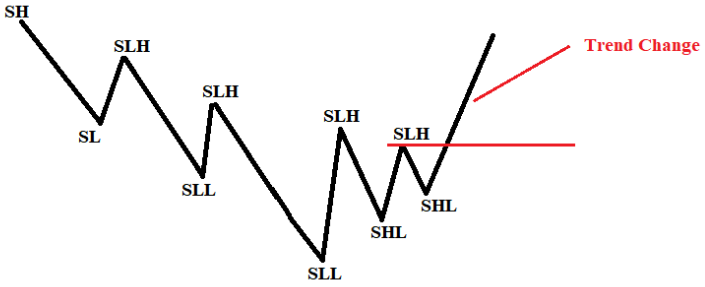

SH
SLH
SLH
SL
SLL
SLH
SHL
SLL
Trend Change


SH
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SLL
Trend Change


SH
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Similar SLL
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Trend Change


SH
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SLH
SLL
Similar SLL
Similar SLH
Similar SLL
SHH
SHL
Trend Change





In the illustrations given above, it can be seen that there might be various cases of downtrend changing to uptrend. The Key to identify the trend change from downtrend to uptrend is to understand the structures of swing points. In a downtrend price makes lower highs and lower lows. When we notice the Higher Low after the series of Lower Lows then we need to look for the breakout of last swing point High before the occurrence of Higher Low in order to anticipate the trend change from downtrend to uptrend.

Volume Spread Analysis Theory

Volume Spread Analysis is the study of Price in relation to its corresponding volume. Volume Spread Analysis identifies the underlying reasons behind the market behaviour or movement. If a trader anticipates a bearish or bullish movement then there must be an underlying reason behind it. Volume Spread Analysis tracks down the professional activity or the moves of the smart money. Smart Money in this context is the Big Banks, Hedge Funds and Large Financial Institution having hefty pockets to move the market the way they want. Smart Money often manipulates the market and hunt down the stop losses of the herd (large number of retail traders). Hence, 90% of retail traders lose money due to smart money manipulation. Since retail traders trade with traditional technical analysis using indicators and price action and even patterns using text books contexts so it is easier for smart money to track down the stop losses of masses and hunt them. Smart money leaves footprints in the form of price action patterns but since everyone is trading price action pattern in the same way so it becomes easier for smart money to take down the herd. This introduces flaws in traditional technical analysis. Fundamental Analysis on the other hand is overwhelmingly broad spectrum and hence introduces paralysis by analysis bias in trading. Price Action Technical Analysis is also very subjective which means that everyone will draw chart patterns, trend lines and Support Resistance Lines in a different way making price action prone to imperfection. Fundamental Analysis is also very subjective too. Many traders have found success by combining price action with fundamental analysis but this method adds to complications. Trading can be consistently profitable if a trader makes sound decisions based on Skewed high risk reward Ratio high probability setups with simplicity. Traders who combines both school of thoughts in trading (i.e. Fundamental Analysis and Technical Analysis) believes that Fundamental Analysis answers why to enter the market and technical price action analysis answers when to enter the market. Volume Spread Analysis answers both why and when of the market. It also eliminates subjectivity from trading and while price can be manipulated by professional activity, volumes can't be manipulated. Thereby, Volume Spread Analysis is one of the best way to understand market psychology and sentiments. VSA can be used in any market like forex, stocks, Indices, commodities, and Futures. Many people might argue that in forex Volumes are useless as it is decentralized market having no real volumes. This is incorrect as forex has Tick Volumes which is proxy to real volumes and correlates it 90% of the time. VSA methodology can also be applied to any timeframe. According to my experience, the effectiveness of Volume Spread

Analysis has been found all time frames. Originally, Volume Spread Analysis was developed during the same time as of Elliot Waves and Gann. Meanwhile, Elliot Waves and Gann were compared to astrology, Richard Wyckoff came up with more logical theory of Volume Spread Analysis. Some of the Key People who contributed to the development of Volume Spread Analysis were Richard Wyckoff, Charles Dow, Jese Livermore, Tom Williams, Gavin Holmes, Anna Coulling, Richard Ney, Rafal Glinicki, William Peter Hamilton, Robert Rhea, E. George Schaefer Philip Friston, Gary Dayton, David Weis and Tim Rayment. Some of the popular technical trading methods which have stood the test of time are as follows:

- Harmonics Patterns Trading (Developed by Scott Corney)
- Price Action Trading (This includes Horizontal Support & Resistance Lines/Zones, Role Reversals Support & Resistance Zones/Lines, Trend lines, Supply & Demand Zones, Role Reversals Supply & Demand Zones, Pivot Points, Fibonacci Retracements, Fibonacci Extensions, Candlestick Patterns, Divergence, Moving Averages and Bollinger Bands Squeeze & Spikes).
- Chart Patterns Trading (This includes Head & Shoulders Top, Head & Shoulders Bottom, Double Top, Double Bottom, Triple Top, Triple Bottom, Rounding Top, Rounding Bottom, Cup and Handle, Symmetrical Triangle, Ascending Triangle, Descending Triangle, Broadening Triangle, Rising Wedge, Falling Wedge, Symmetrical Channel/Rectangle, Ascending Channel, Descending Channel, Peanuts, Flags, Bump & Run Reversal, Bear Traps and Bull Traps).
- Elliot Waves Trading (Developed by Ralph Nelson Elliot and Robert Prechter)
- W.D.Gann Theory (Developed by William Delbert Gann)
- Andrew Pitchfork Theory (Developed by Andrew Pitchfork)
- Wyckoff's Volume Spread Analysis/Tape Reading (Combinations of Dow Theory and VSA) (Developed by Richard Wyckoff, Charles Dow, William Peter Hamilton, Robert Rhea, E. George Schaefer, Jese Livermore and Tom Williams)

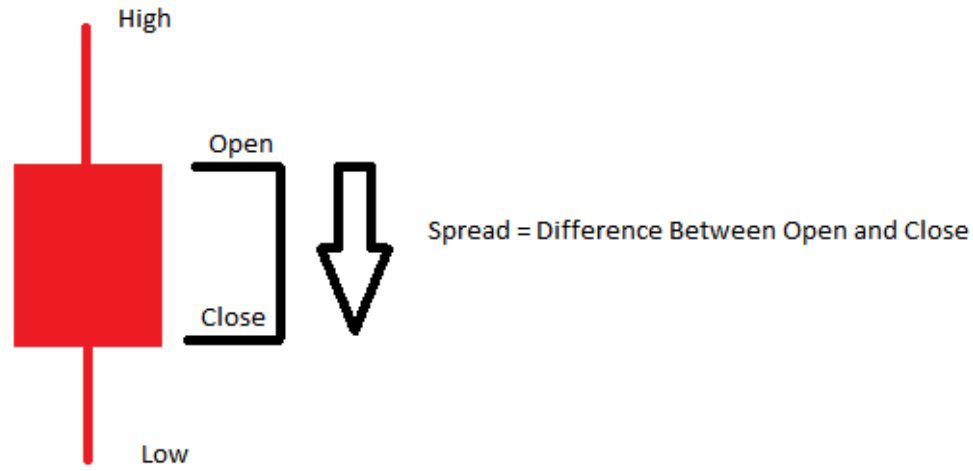
The primary problem with Chart Patterns, Harmonic Patterns, Price Action, Elliot Waves, W.D.Gann Theory and Andrew Pitchfork Theory is the subjectivity which means every trader trades them differently and the other problem is that these patterns are Classical text book patterns which everyone is using and is readily & widely available across the internet. This makes them prone to smart money

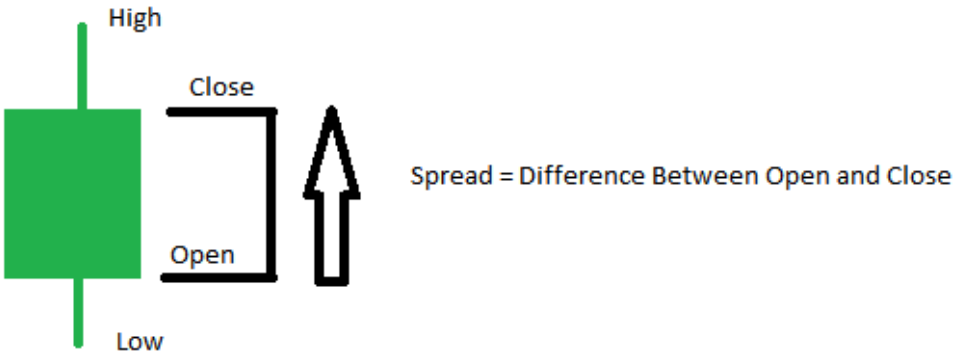
manipulation. Wyckoff's VSA Methodology is clearly the best method among all these patterns due to three main reason:

- It is non subjective (It has 0 subjectivity).
- It is not prone to smart money manipulation as the method itself is used for detecting smart money activity.
- It figures out the underlying reasons behind the market movements and also understands the cause of imbalance between supply and demand.

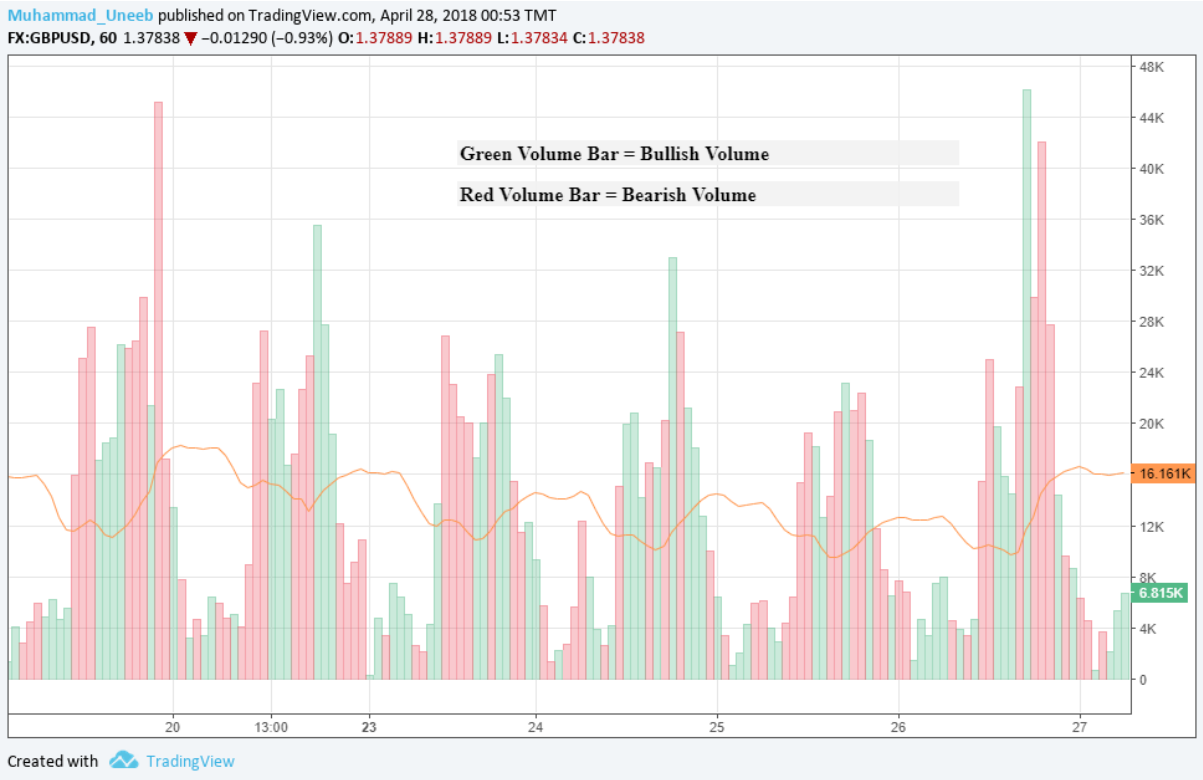
Components of volume Spread Analysis:

1) Spread: Spread is the difference between Opening and closing of the price. See the diagram below for further illustration.
2) Volume is the activity of the frequency of transaction of the price change during a specified period of time.

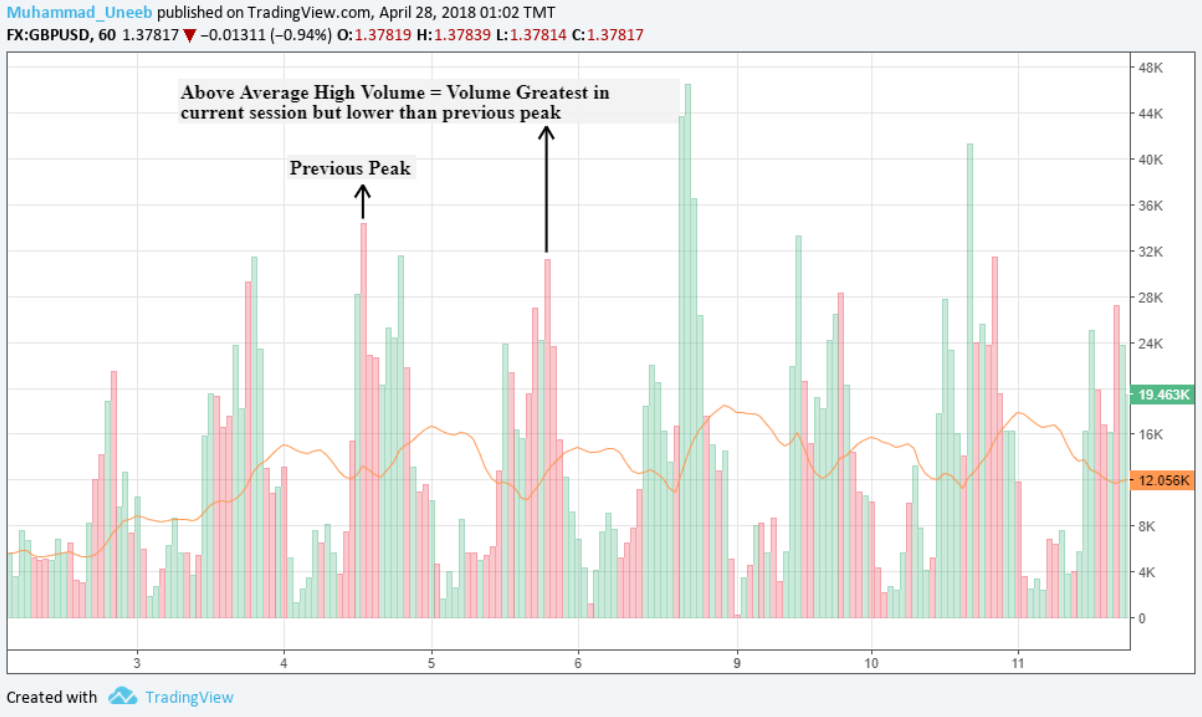




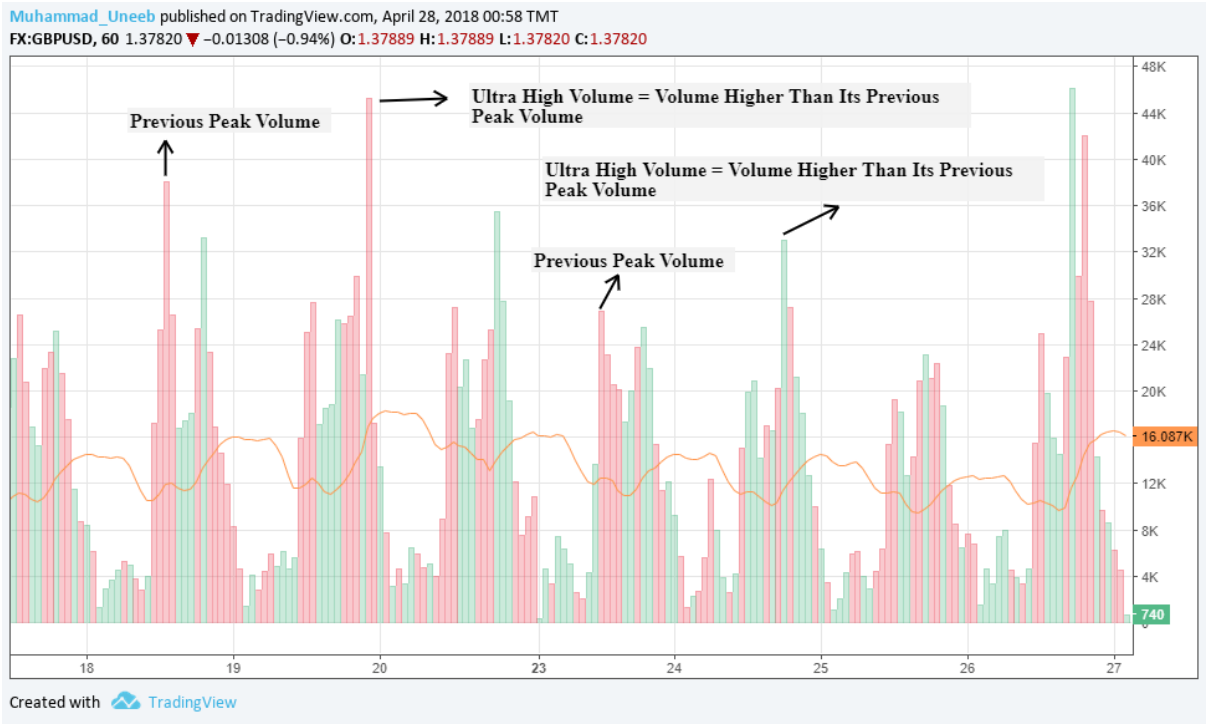
3) Bearish and Bullish Volume: Bearish Volume is marked in Red and it shows bearish activity. Bullish Volume is marked in green and it shows bullish activity.



4) Above Average High Volume: Above Average High Volume is the Highest Volume in the current session which is higher than the average volume but it is lower than the previous peak Volume. Average Volume is the volume that coincides with Moving Average 20 of the volume indicator.



5) Ultra-High Volume: Ultra High Volume is the Highest Volume in the current session. It is higher than the previous peak volume.



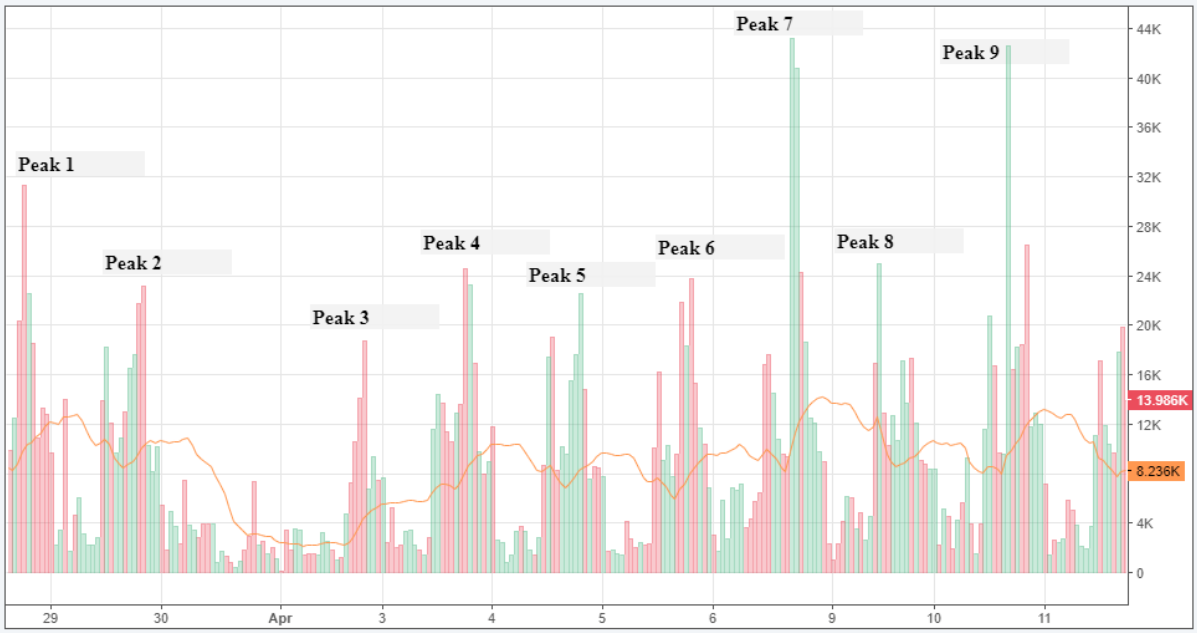
Peak structure is the structure that looks like a mountain Top. See the picture below:



You can visually compare Mountain Peaks to identify volume peaks structure. The key is to understand the structure of the peak clearly. Volume peak has following characteristics:

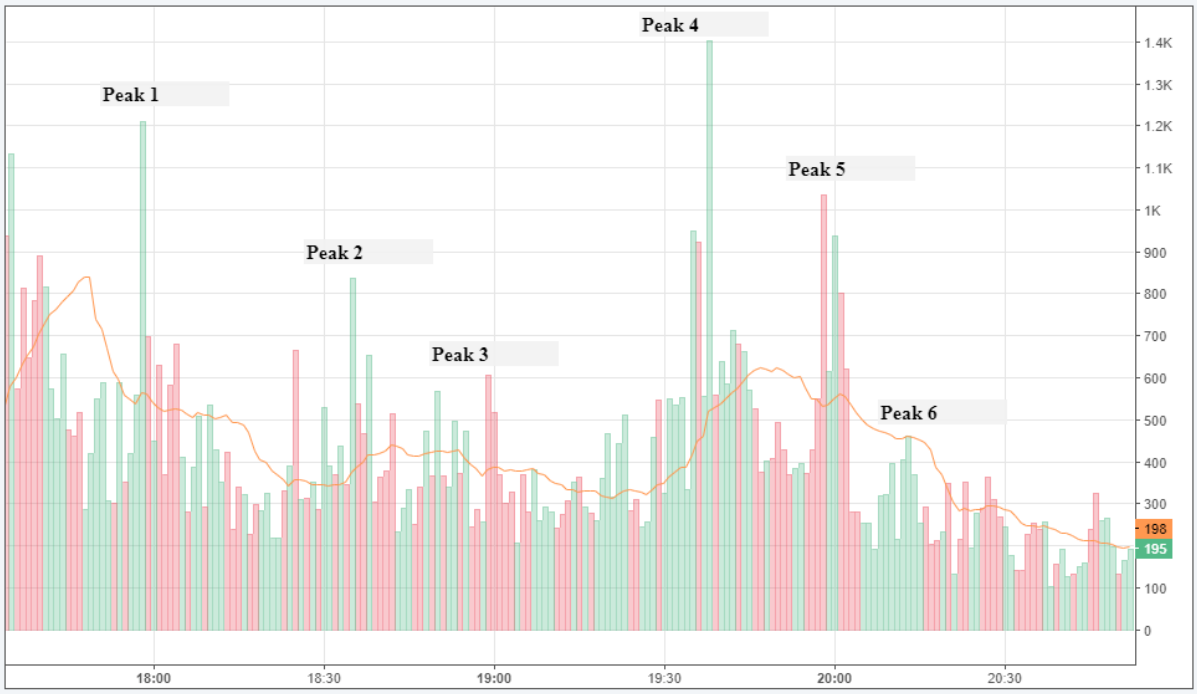
Rising Volume → Peak (Highest Point) → Falling Volume

Muhammad_Uneeb published on TradingView.com, April 28, 2018 16:11 TMT
FX:EURUSD, 60 1.21263 ▲ +0.00231 (+0.19%) O:1.21307 H:1.21314 L:1.21263 C:1.21263



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Muhammad_Uneeb published on TradingView.com, April 28, 2018 16:25 TMT
FX:EURUSD, 1 1.21263 ▲ +0.00231 (+0.19%) O:1.21302 H:1.21303 L:1.21263 C:1.21263



Created with TradingView

There are two major applications of VSA namely tracking of SOW (Sign of Weakness) and tracking of SOS (Sign of Strength).

SOW occurs when the Demand is exhausted (Buyers Exhausted) after uptrend and Supply increases (More Sellers come in). This imbalance between supply and demand causes the market to fall.

SOS occurs when Supply is exhausted (Sellers exhausted) after downtrend and Demand increases (More Buyers come in). This imbalance between supply and demand causes the market to rise.

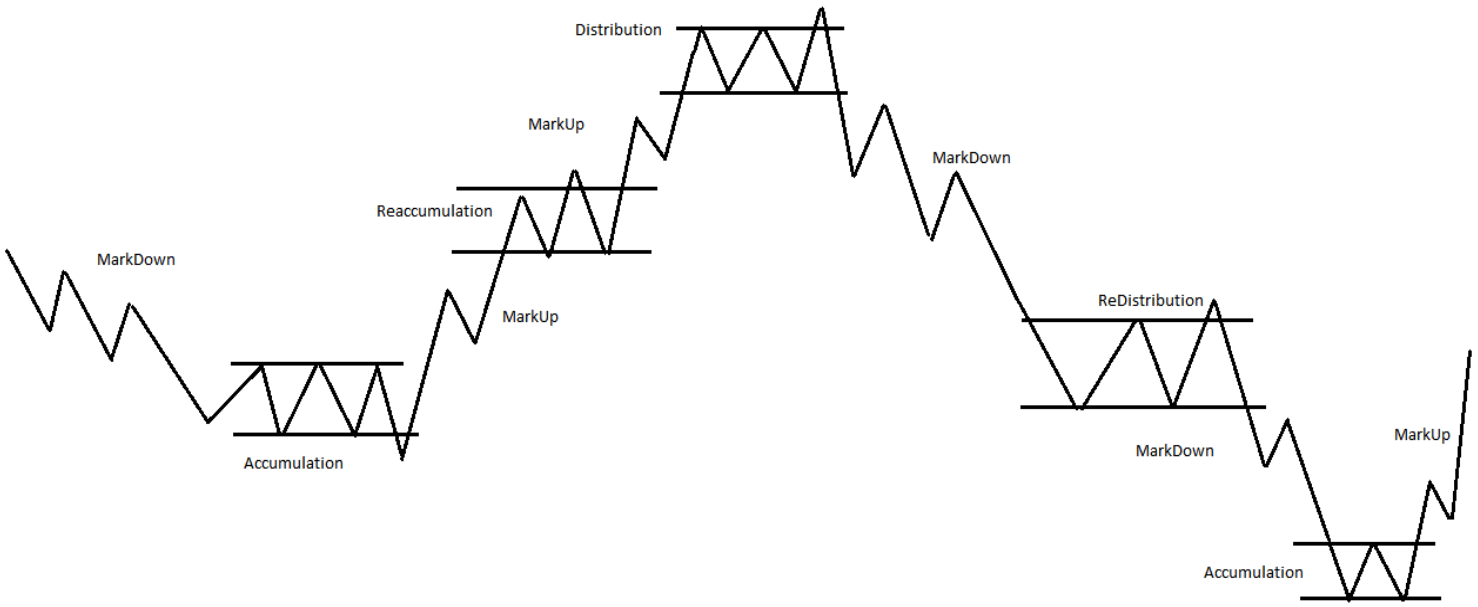
SOS = Demand > Supply

SOW = Supply > Demand

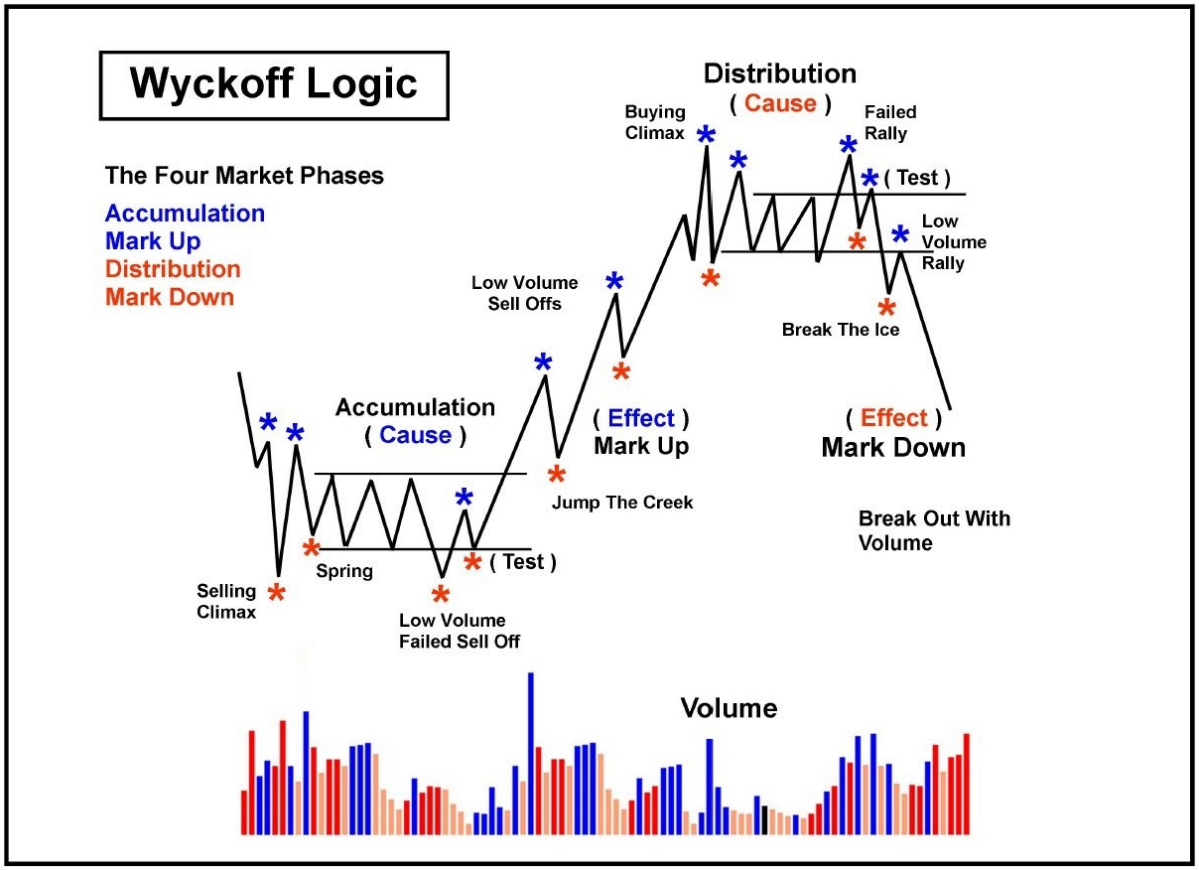
There are 4 stages of VSA.

1) Accumulation: This Occurs when Supply and Demand are in equilibrium to each other after exhausted mark down move. Re-accumulation also occurs when Supply and Demand are in equilibrium after mark-up move.
2) Mark Up: This occurs when Demand becomes more than supply causing an upward bullish rally after accumulation and re-accumulation process
3) Distribution: This occurs when Supply and Demand are in equilibrium after the exhausted mark-up move. Re-distribution occurs when Supply and Demand are in equilibrium after mark down move.

Mark Down: This occurs when Supply becomes more than Demand causing a downward drop after distribution and re-distribution phase.



Note: ACCUMULATION AND DISTRIBUTION ZONES CAN ALSO BE CALLED RANGE OR CONSOLIDATION OR CONGESTION


Wyckoff Logic
The Four Market Phases
Accumulation
Mark Up
Distribution
Mark Down
Distribution
(Cause)
Buying Climax
Failed Rally
(Test)
Low Volume Rally
Break The Ice
Low Volume Sell Offs
(Effect)
Mark Up
Jump The Creek
(Effect)
Mark Down
Break Out With Volume
Accumulation
(Cause)
Selling Climax
Spring
(Test)
Low Volume Failed Sell Off
Volume

Types of SOS:

1) Down thrust:

Down thrust is the bullish pin bar or pin bar styled Doji bar having an ultra-high volume or above average high volume. The Spread of the down thrust bar is extremely low meanwhile the volume is relatively high. VSA suggests that if the spread is low then the volume should also be low. In this case there is an anomaly between spread and volume which signifies that there is more demand than the supply causing price to rise up in near future.



2) Selling Climax:

Selling Climax is the high spread bearish candle closing well off the lows having noticeable downward rejection wick projected on ultra-high or above average high volume. High spread rejection low volume anticipates that the market will rise up soon because there is more demand than the supply. Selling Climax has a downward wick whose size is approximately 25%-50% of the candle's body size.




Muhammad_Uneeb published on TradingView.com, April 27, 2018 23:24 TMT
FX:USDJPY, 1 109.099 ▼ −0.195 (−0.18%) O:109.095 H:109.099 L:109.095 C:109.099
Selling Climax: Wide Spread Bearish (Down) Candle (Bar) Closing Well off the Lows having noticeable downward rejection wick projected on ultra high or above average high volume.
Selling Climax
Above Average High Volume
109.500
109.450
109.400
109.350
109.300
109.250
109.238
109.212
00:52
109.150
586
473
400
200
0
17:50
18:00
18:10
18:20
18:30
18:40
18:50
19:00
19:10
19:20
Created with TradingView

3) Bearish Effort < Bearish Result:

High Spread Bearish Candle whose spread is larger than the previous candle's spread but its volume is lower than the previous candle's volume. VSA suggests that if there has been no effort made then there should not be any result. This Anomaly between Price and Volume increases demand and reduces supply causing the market to rise in future. An effort (volume) has not been made but there is a result (Spread).




Muhammad_Uneeb published on TradingView.com, April 27, 2018 23:42 TMT
FX:USDJPY, 1 109.075 ▼ −0.219 (−0.2%) O:109.069 H:109.075 L:109.068 C:109.075
109.420
109.400
109.380
109.360
109.340
109.320
109.309
109.304
00:39
Bearish Effort < Bearish Result
Volume Lower Than Previous Candle's Volume.
600
400
262
252
0
12:50
13:00
13:10
13:20
13:30
13:40
13:50
14:00
14:10
14:20
14:30
Created with TradingView

4) Bearish Effort > Bearish Result:

Low Spread Bearish Candle having spread lower than the previous candle's spread but its volume is higher than the previous candle's volume. VSA suggests that if the effort has been made then there must be a result. In this case there is an anomaly (disagreement) between volume and price resulting demand to become more than the supply and causing price to rise in near future. An effort (volume) has been made but there is no result (Spread).



5) No Supply Bar:

A low spread bearish candle having downward wick whose volume is lower than the previous two candles' volumes. No Supply bar means that there is lack of supply and demand is overpowering supply causing price to rise in future. Please note that No Supply Bar is a continuation signal not a reversal signal. No supply bar is effective only if it is appears after bullish momentum or appears after SOS in the direction of the trend.



6) Pseudo down thrust:

Pseudo down thrust is the bullish pin bar or pin bar styled doji bar having low spreads whose volume is lower than the previous two candles' volumes. This suggests that there is no supply or lack of supply. Lack of supply means that demand will overpower supply causing price to rise in near future. Please note that Pseudo down thrust is a continuation signal not a reversal signal. Pseudo down thrust is effective only if it is appears after bullish momentum or appears after SOS in the direction of the trend.



7) Pseudo Inverse down thrust:

Pseudo Inverse down thrust is an inverse bullish pin bar (or pin bar styled doji bar) having low spreads and its volume is lower than the previous two candles' volumes. This suggests that there is no supply or lack of supply. Lack of supply means that Demand will overpower supply causing price to rise in near future. Please note that Pseudo inverse down thrust is a continuation signal not a reversal signal. Pseudo inverse down thrust is effective only if it is appears after bullish momentum or appears after SOS in the direction of the trend.



8) Inverse down thrust:

Inverse down thrust is the inverse bullish pin bar or pin bar styled doji bar having low spreads and projected on ultra-high or above average high volume. VSA suggests that if the spread is low then the volume should also be low. In this case there is an anomaly between spread and volume which signifies that there is more demand than the supply causing price to rise up in near future.





9) Failed Effort Selling Climax:

Failed Effort Selling Climax is the variation of Selling Climax having no (25%-50% of body size) downward rejection wick. It has higher spread than the previous candles and its volume is also higher than the previous candle. There is an anomaly between Volume and Price as compared to previous candles. However, the next candle is bullish, absorbing the entire bearish effort. We can go long here.



There can be another variation of down thrust in the form of long legged Doji Bar or Spinning Bottom having ultra high volume or above average high volume. Its spread is extremely low meanwhile its volume is ultra high or above average high. VSA suggests that if the spread is low then the volume should also be low. In this case there is an anomaly between spread and volume which signifies that there is more supply than the demand causing price to fall in near future.

There can alse be another variation of psuedo downthrust in the form of long legged doji bar or Spinning Bottom having low spreads. Its volume is lower than the previous two candles' volumes. It is a variant of no demand bar. This suggests that there is no demand or lack of demand. Lack of demand means that supply will overpower demand causing price to fall in near future.

Types of SOW:

1) Up thrust:

Up thrust is the bearish pin bar or pin bar styled doji bar having an ultra-high volume or above average high volume. The Spread of the up thrust bar is extremely low meanwhile the volume is relatively high. VSA suggests that if the spread is low then the volume should also be low. In this case there is an anomaly between spread and volume which signifies that there is more supply than the demand causing price to fall in near future.



2) Buying Climax:

Buying Climax is the high spread bullish candle closing well off the highs having noticeable upward rejection wick projected on ultra-high or above average high volume. High spread rejection low volume anticipates that the market will fall soon because there is more Supply than the Demand. Buying Climax has an upward wick whose size is approximately 25%-50% of the candle's body size.




Muhammad_Uneeb published on TradingView.com, April 27, 2018 23:30 TMT
FX:USDJPY, 1 109.109 ▼ −0.185 (−0.17%) O:109.121 H:109.122 L:109.105 C:109.109
Buying Climax
Buying Climax
Buying Climax: Wide Spread Bullish (Up) Candle (Bar) closing well off the highs having noticeable upward rejection wick projected on ultra high or above average high volume.
Ultra High Volume
Above Average High Volume
109.370
109.360
109.350
109.341
00:37
109.330
109.320
109.315
109.310
109.300
109.290
109.280
109.270
109.260
400
300
185
90
0
14:20
14:30
14:40
14:50
15:00
15:10
15:20
15:30
15:40
15:50
16:00
16:10
Created with TradingView

3) Bullish Effort < Bullish Result:

High Spread Bullish Candle whose spread is larger than the previous candle's spread but its volume is lower than the previous candle's volume. VSA suggests that if there has been no effort (Volume) made then there should not be the result (Spread). This Anomaly between Price and Volume increases supply and reduces demand causing the market to fall in future.




Muhammad_Uneeb published on TradingView.com, April 27, 2018 23:53 TMT
FX:USDJPY, 1 109.033 ▼ −0.261 (−0.24%) O:109.028 H:109.034 L:109.027 C:109.033
Bullish Effort < Bullish Result
Volume Lower Than The Previous Candle's Volume
109.250
109.240
109.230
109.220
109.210
109.200
109.190
109.187
00:30
109.170
109.160
800
600
400
200
131
10
08:00
08:10
08:20
08:30
08:40
08:50
09:00
Created with TradingView

4) Bullish Effort > Bullish Result:

Low Spread Bulish Candle having spread lower than the previous candle's spread but its volume is higher than the previous candle's volume. VSA suggests that if an effort (volume) has been made then there must be a result (spread). In this case there is an anomaly (disagreement) between volume and price resulting Supply to become more than the Demand and causing price to fall in near future.



5) No Demand Bar:

A low spread bullish candle having upward wick whose volume is lower than the previous two candles' volumes. No Demand bar means that there is lack of demand and supply is overpowering demand causing price to fall in future. Please note that No Demand is a continuation signal not a reversal signal. No Demand is effective only if it is appears after bearish momentum or appears after SOW in the direction of the trend.



6) Pseudo upthrust:

Psuedo upthrust is the bearish pin bar or pin bar styled doji bar having low spreads whose volume is lower than the previous two candles' volumes. This suggests that there is no demand or lack of demand. Lack of demand means that supply will overpower demand causing price to fall in near future. It is a variant of no demand bar. Please note that Pseudo up thrust is a continuation signal not a reversal signal. Pseudo up thrust is effective only if it is appears after bearish momentum or appears after SOW in the direction of the trend.



7) Inverse Pseudo Upthrust:

It is the inverse bearish pin bar (or pin bar styled doji bar) having low spreads. Its volume is lower than the previous two candles' volumes. It is a variant of no demand bar. This suggests that there is no demand or lack of demand. Lack of demand means that supply will overpower demand causing price to fall in near future. Please note that Pseudo inverse upthrust is a continuation signal not a reversal signal. Pseudo inverse up thrust is effective only if it is appears after bearish momentum or appears after SOW in the direction of the trend.



8) Inverse Up thrust:

Inverse Up thrust is the inverse bearish pin bar (or pin bar styled doji bar) having an ultra-high volume or above average high volume. The Spread of the up thrust bar is extremely low meanwhile the volume is relatively high. VSA suggests that if the spread is low then the volume should also be low. In this case there is an anomaly between spread and volume which signifies that there is more supply than the demand causing price to fall in near future.



9) Failed Buying Climax:

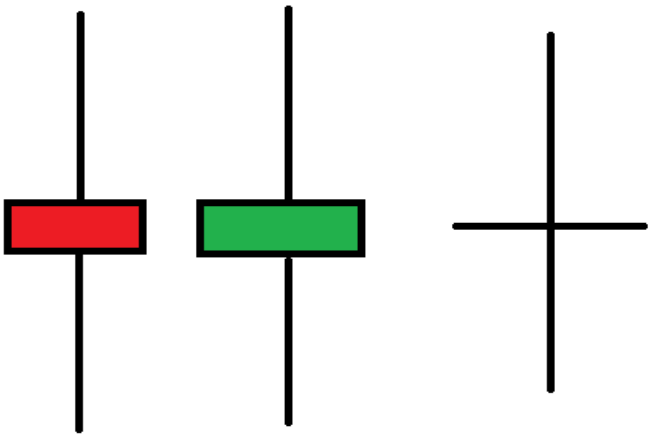
Failed Effort Buying Climax is the variation of Buying Climax having no (25%-50% of body size) upward rejection wick. It has higher spread than the previous candle and its volume is also higher than the previous candle. There is an anomaly between Price and Spread of the Failed Buying Climax as compared to previous candles. However, the next candle is bearish, absorbing the entire bullish effort. We can go short here.



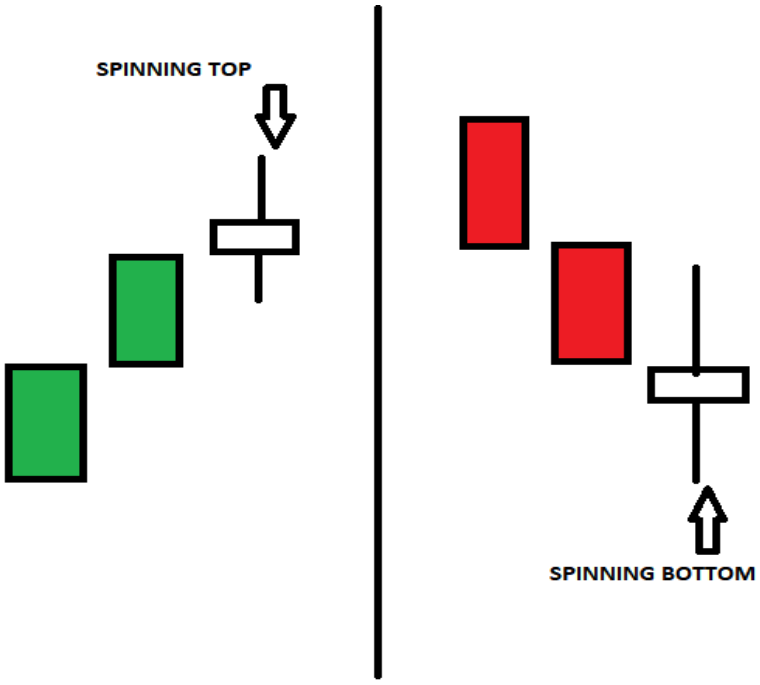
There can be another variation of Up Thrust in the form of long legged Doji Bar or Spinning Top having ultra high volume or above average high volume. Its spread is extremely low meanwhile its volume is ultra high or above average high. VSA suggests that if the spread is low then the volume should also be low. In this case there is an anomaly between spread and volume which signifies that there is more supply than the demand causing price to fall in near future.

There can alse be another variation of psuedo upthrust in the form of long legged doji bar or Spinning Top having low spreads. Its volume is lower than the previous two candles' volumes. It is a variant of no demand bar. This suggests that there is no demand or lack of demand. Lack of demand means that supply will overpower demand causing price to fall in near future.

LONG LEGGED DOJI BAR EXAMPLES



SPINNING TOP / SPINNING BOTTOM EXAMPLES

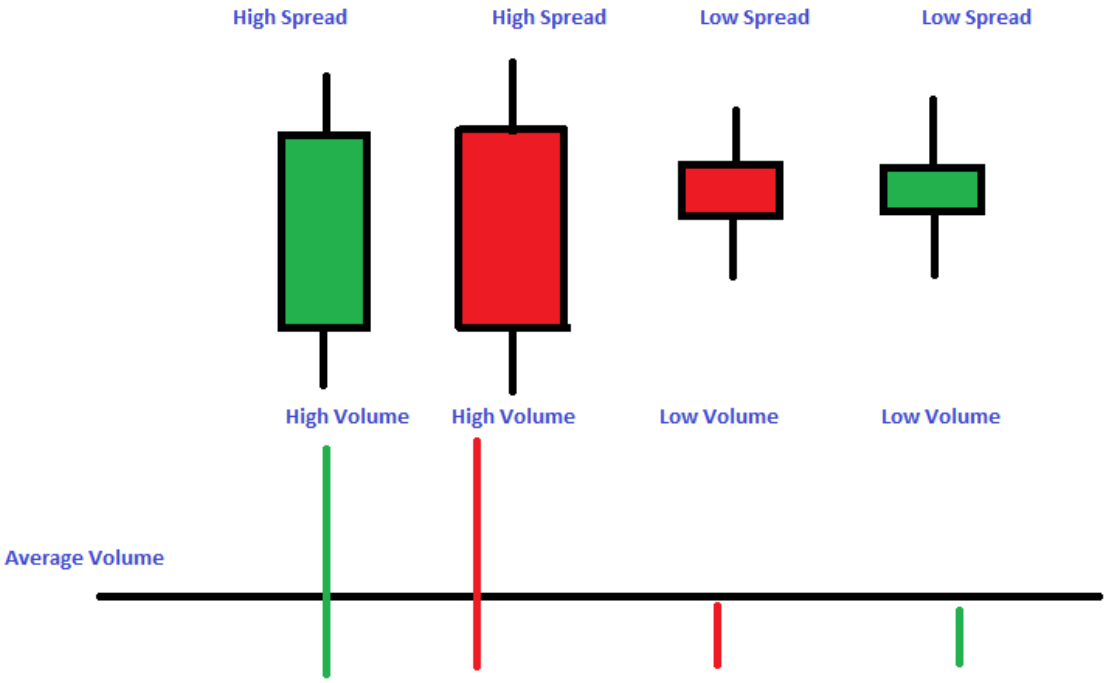


An Overview of how VSA works in wyckoff method! (This wil be discussed in great detail later on in this book)



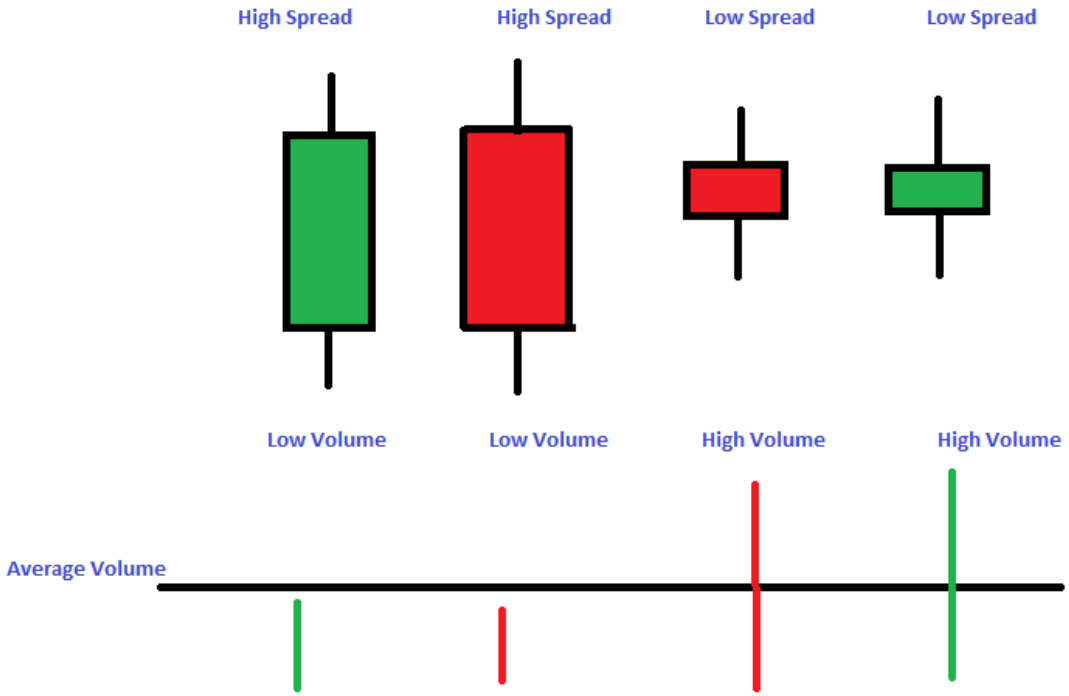
Now as we have learnt the basics of Volume Spread Analysis, let's understand the logical reasoning behind the viability of Volume Spread Analysis. We will look into two concepts to extract the logical reasoning behind the working of Volume Spread Analysis.

1) Validation: Validation simply means that volume must validate price and its spreads. If Spread is low then volume should also be low. If spread is high then volume should also be high. See the illustration below:



In the illustration given above, it can be seen that High Spread Candles reflect High Volumes and Low Spread Candles reflect Low Volumes. We say that Volume and Price are in validation.

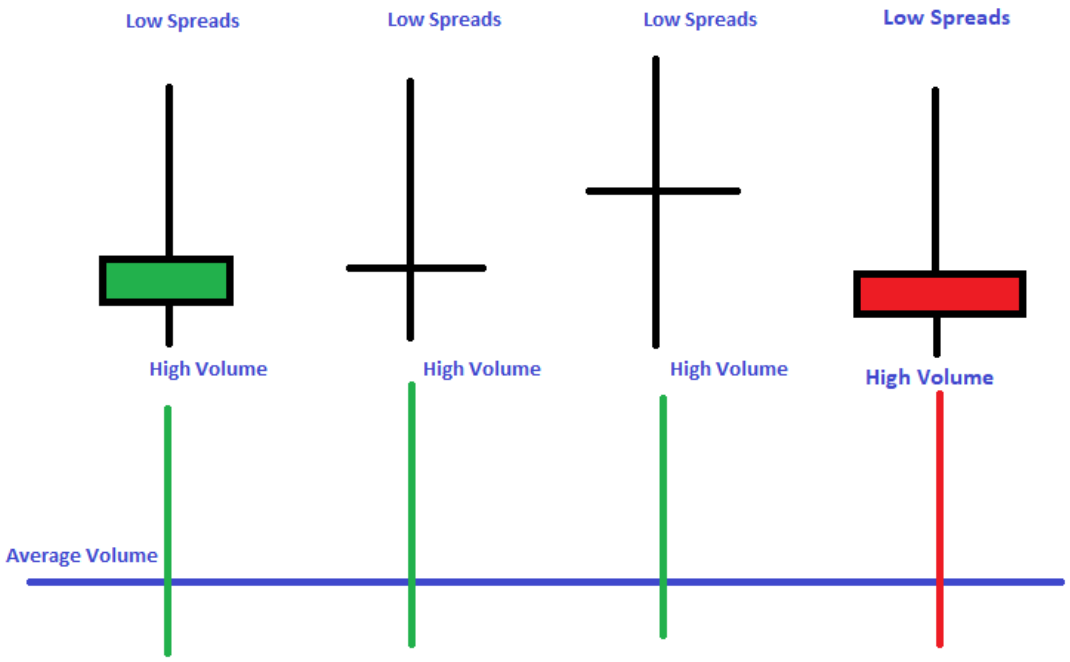
2) Anomaly: Anomaly occurs when the validation between price and volume is violated. Anomaly creates distortion in Dow Theory and also creates imbalance between supply and demand. Let's consider an illustration given below:



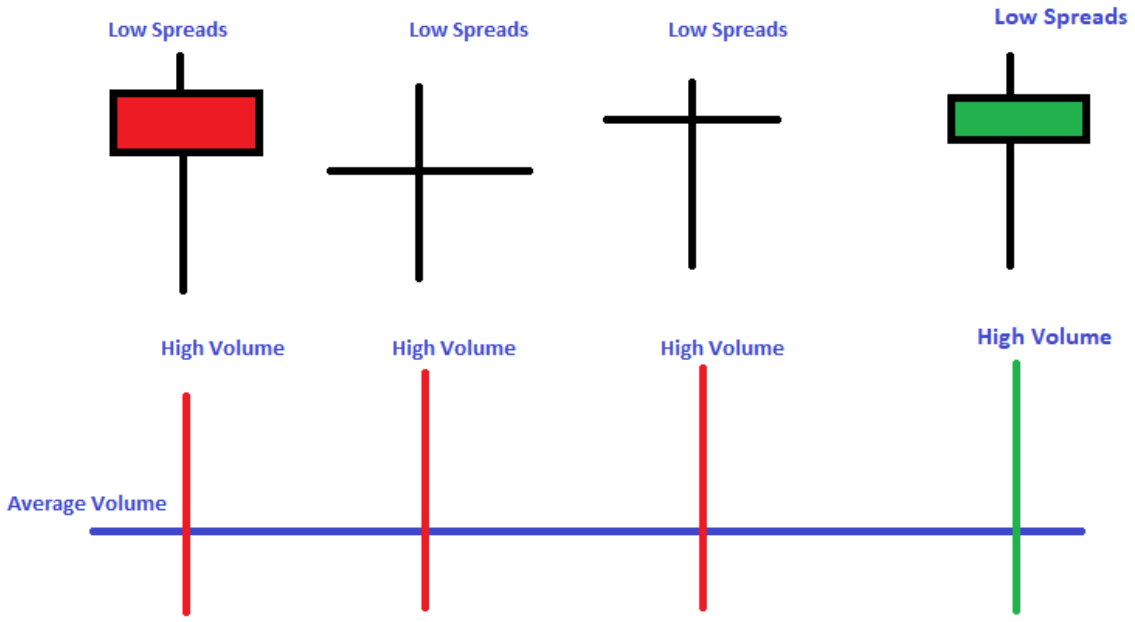
In the illustration given above there is an anomaly between volume and price which shows the imbalance between supply and demand. This imbalance between supply and demand creates SOW (Sign of Weakening) and Sign of Strength (SOS). SOS and SOW have been discussed above in this book.

Now I believe, you can understand the logical reasoning behind the creation of SOW and SOS. Now let's understand how SOS and SOW can be explained by Volume Price Anomaly.

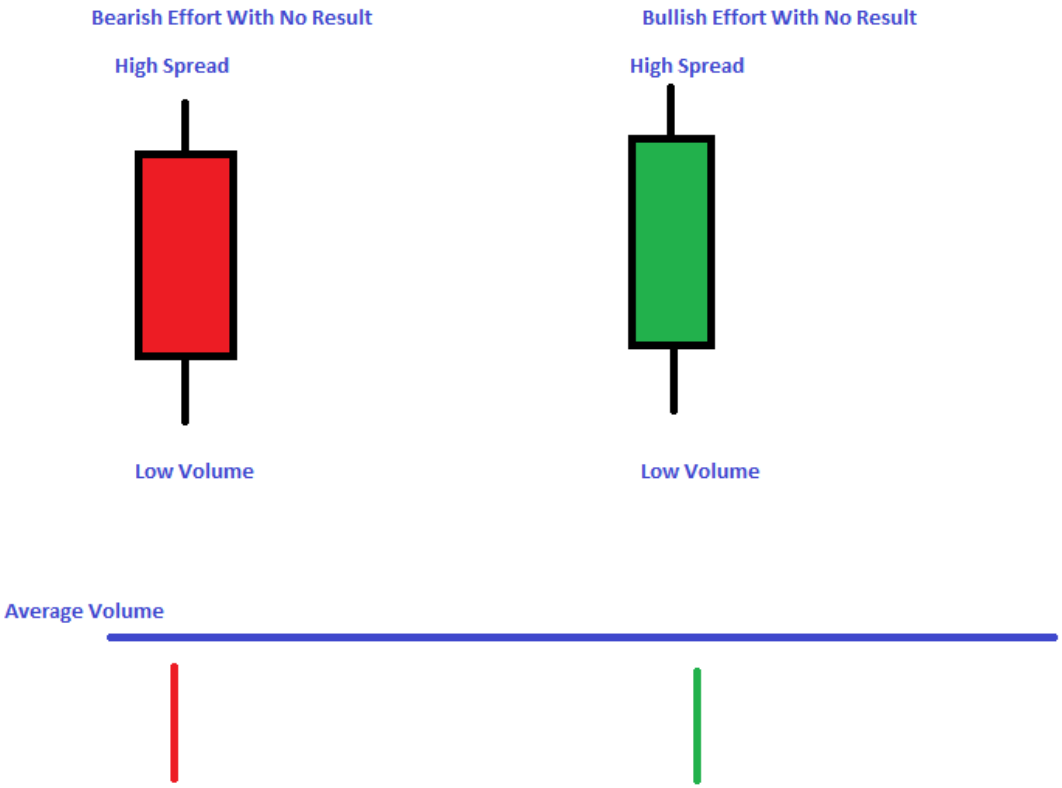
1) UP Thrust (SOS): Up thrust is the narrow spread bearish pin bar or pin bar styled doji bar or long legged doji bar projected on ultra-high volume or above average high volume. There is an anomaly between price and volume in an up thrust. Up thrust bar is formed in an uptrend and shows the exhaustion or weakening. See the illustration given below.



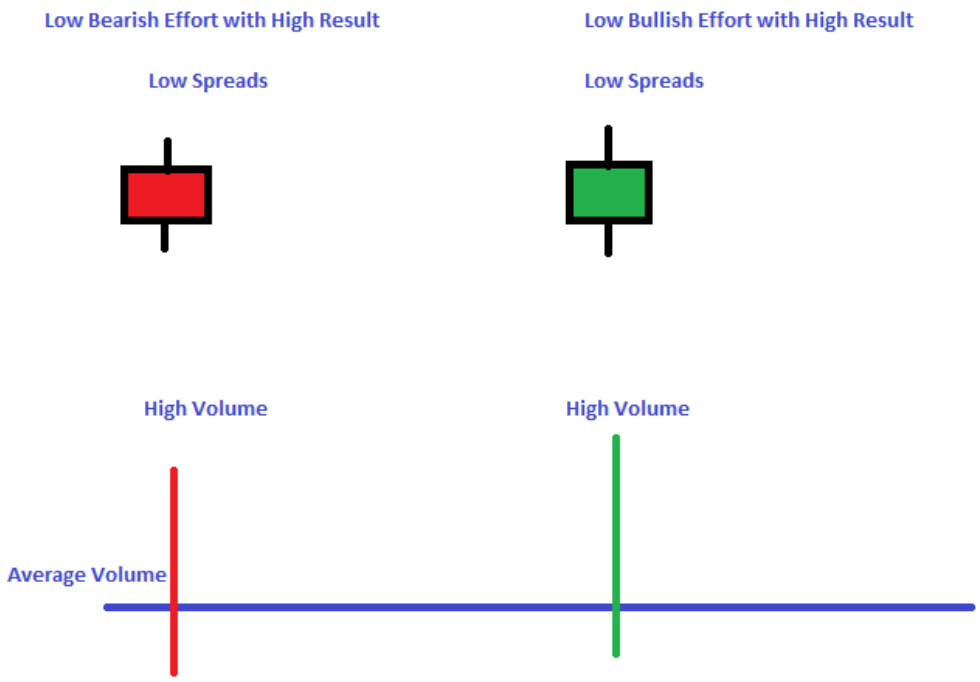
2) Down Thrust (SOS): Down thrust is the narrow spread bullish pin bar or pin bar styled doji bar or long legged doji bar projected on ultra-high volume or above average high volume. There is an anomaly between price and volume in a down thrust. Down thrust bar is formed in a down thrust and shows the Strength. See the illustration given below.



3) Effort with no result: Bearish effort with no result (SOS) is a wide spread down bar projected on low volume. It appears in a down trend. Bullish effort with no result (SOW) is a wide spread up bar projected on low volume. It appears in an uptrend. See the illustration below.

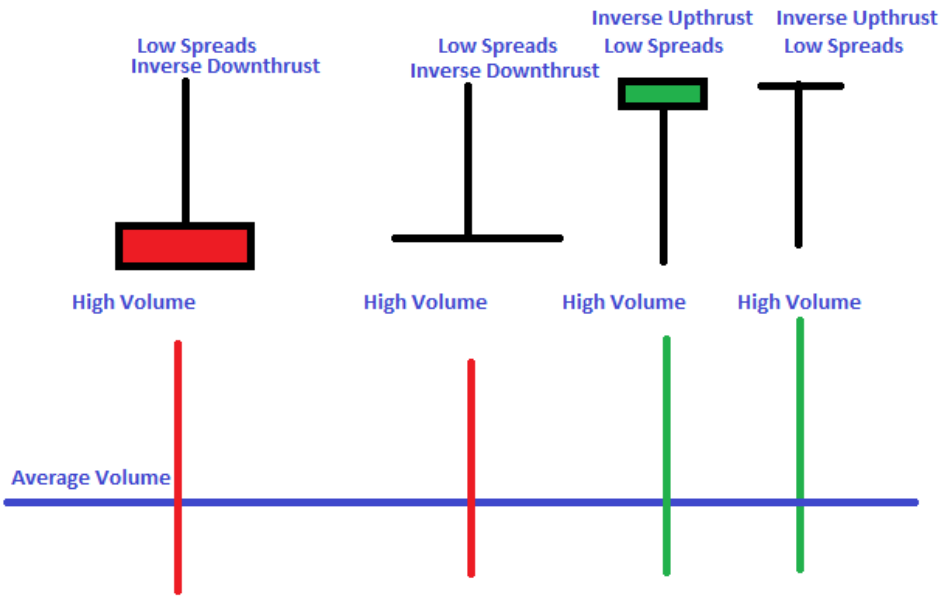


4) Less Effort with high result: Less bearish effort with high result (SOS) is a low spread bearish down bar on high volume. It appears in a down trend. Less Bullish Effort with high result (SOW) is a low spread bullish down bar on high volume. It appears in an uptrend. See the illustration below.

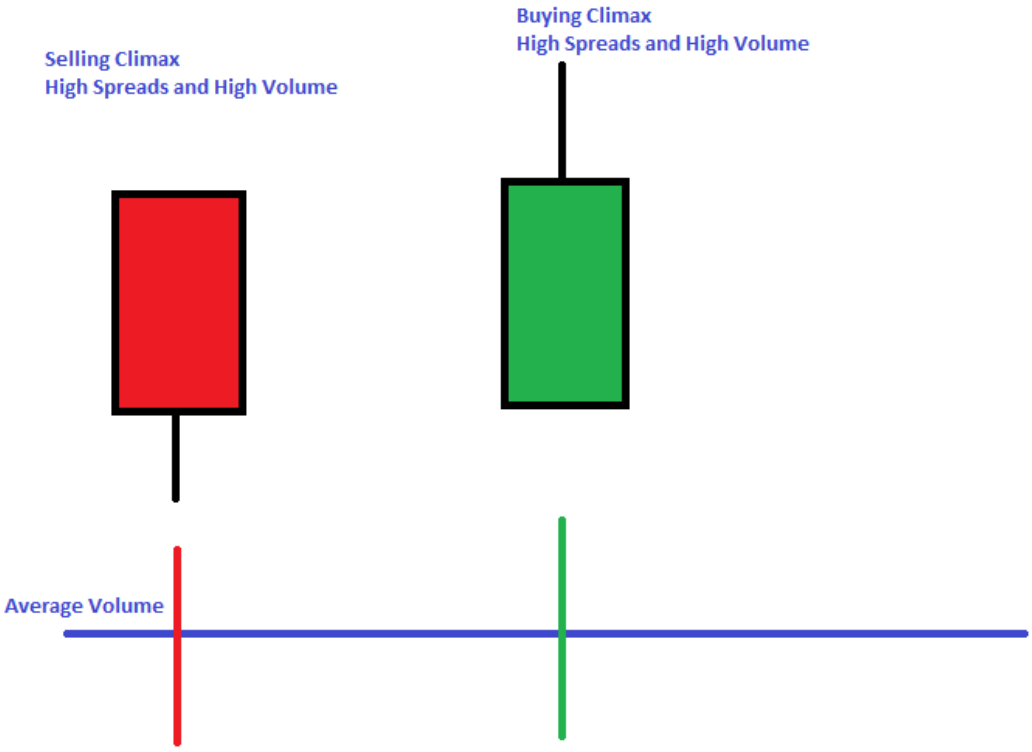


5) Inverse Up thrust and Inverse down Thrust: Inverse Up thrust (SOW) is a low spread Bullish Inverse Pin Bar or Inverse Pin Bar Styled Doji Bar Projected on a High Volume. It appears in an uptrend. Inverse down thrust (SOs) is a low spread Bearish Inverse Pin Bar or Inverse Pin Bar Styled Doji Bar Projected on a High Volume. It appears in a down trend.

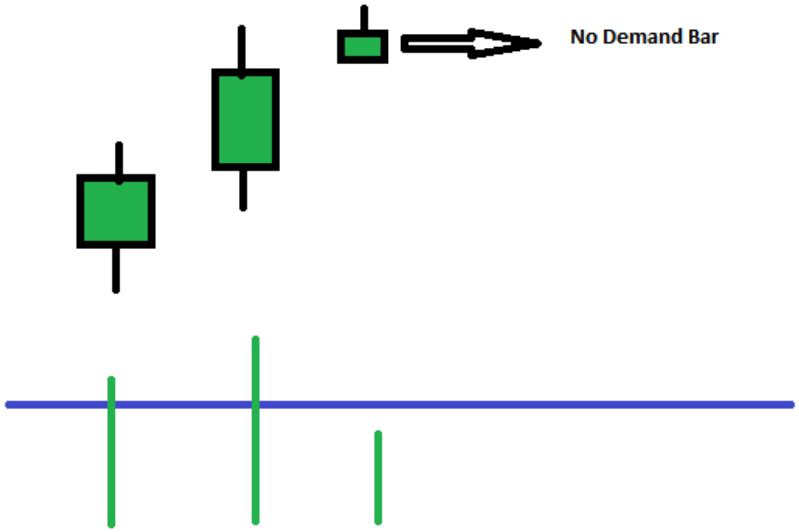
See the illustration below.

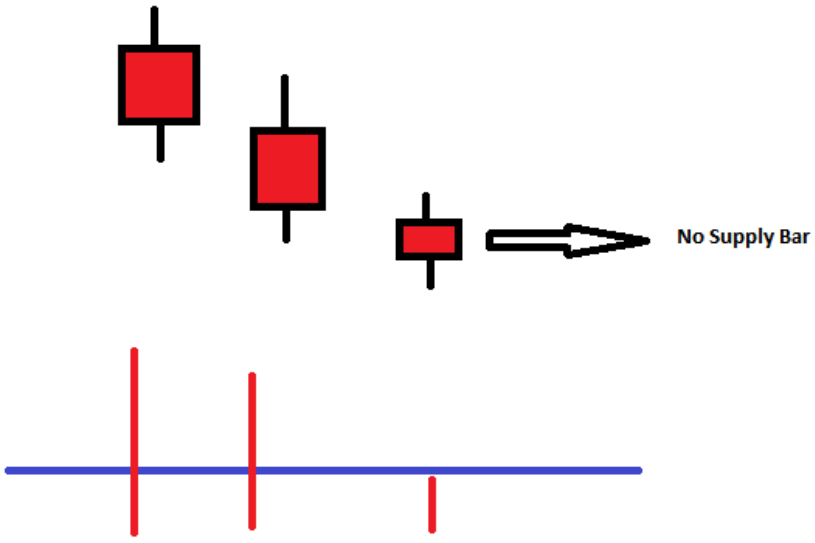


6) Buying/Selling Climax: Buying Climax (SOW) is a wide spread up bar projected on a high volume. Buying Climax has an upward rejection wick. The wick must be 25%-50% of the candle's body size. Selling Climax (SOS) is a wide spread up bar projected on a high volume. Selling Climax has a downward rejection wick. The wick must be 25%-50% of the candle's body. You might be surprised how there is anomaly between volume and price in case of Selling/Buying Climax since they have high spreads projected on high volume. Well the simple way to understand the anomaly is in terms of rejection. When Buying Climax have an upward rejection wick of 25%-50% then it means sellers are trying to stop an upward momentum and so the volume must reduce but the high volume signifies that there is an anomaly. Similarly, When Selling Climax have a downward rejection wick of 25%-50% then it means that buyers are trying to stop a downward momentum so volume must reduce but the high volume signifies that there is an anomaly.



7) No Demand/No Supply and their variants: Let's First consider the variants of No Supply Bars: No Supply Bar, Pseudo down Thrust and Inverse Pseudo down thrust. Now let's consider the variants of No Demand Bars: No Demand Bar, Pseudo Up thrust and Inverse Pseudo Up thrust. No Demand occurs when a low spread up bar is projected on a volume lower than its previous two candles' volumes. No Supply occurs when a low spread down bar is projected on a volume lower than its previous two candles' volumes. There is no anomaly between price and volume in this case but lack of supply or demand signifies the imbalance between supply and demand which causes the price to move as a result of this imbalance. See the illustration below:





By understanding the logic behind the volume spread analysis, we can summarize the three main laws of Wyckoff's principle:

- The Law of Supply and Demand: Imbalance between supply and demand causes price movements in the market. This includes: No Demand, No Supply, Low Volume Retest of SOW/SOS (This will be covered in detail later on in this book), Spring Tests (This will be covered in detail later on in this book) and Accumulation/Distribution (This will be covered in detail later on in this book).
- The Law of Effort vs Result: The anomaly between volume and price causes the weakness (SOW) or strength (SOS) in the market.
- The Law of Cause and Effect: The Law of cause and effect = The Law of Supply and demand + The Law of Effort Vs Result.

So far we have discussed VSA effect on single candle. Now let's discuss VSA effect on Multiple Candles. See the illustrations below:

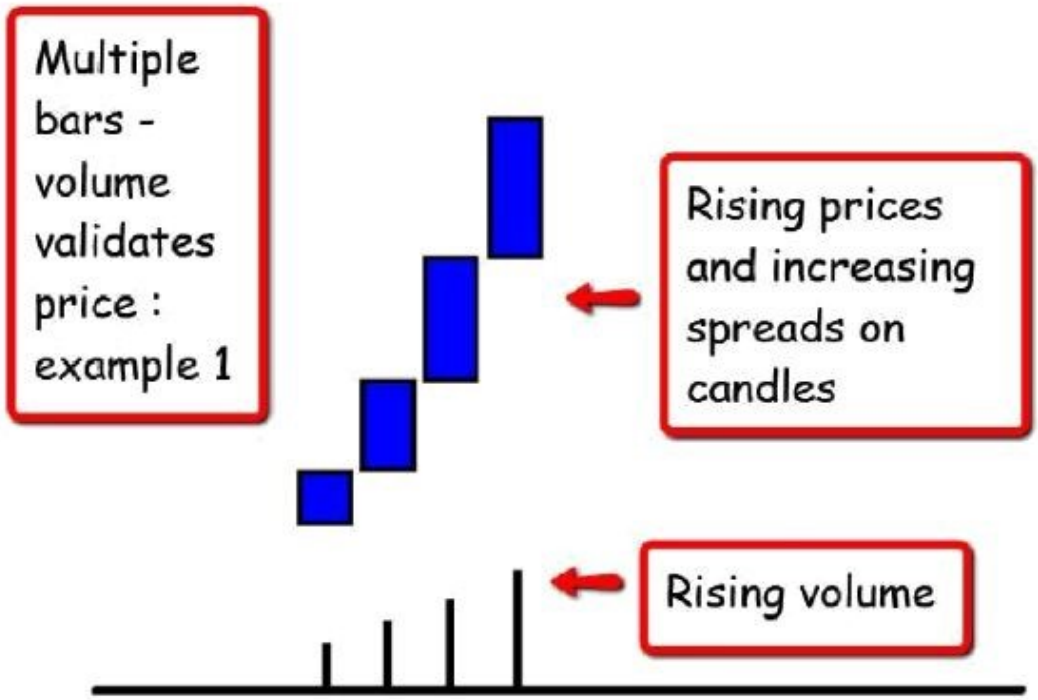


Fig 4.14 Multiple Bar Validation In Up Trend

In the above illustration, first candle has low spreads accompanied by low volume. The price is validating volume. The spreads of second candle increases relatively to the previous candle's spreads and volume also increases relatively. Once again

price is validating volume. The spreads of third candle is larger than the previous candle's spreads and volume also increases relatively. The price is validating volume. We also have another validation here and that is with increasing upward momentum, volume also increases. The spreads of fourth candle is larger than the previous candle's spreads and volume also increases relatively. The price is validating volume. We also have another validation here and that is with increasing upward momentum, volume also increases.

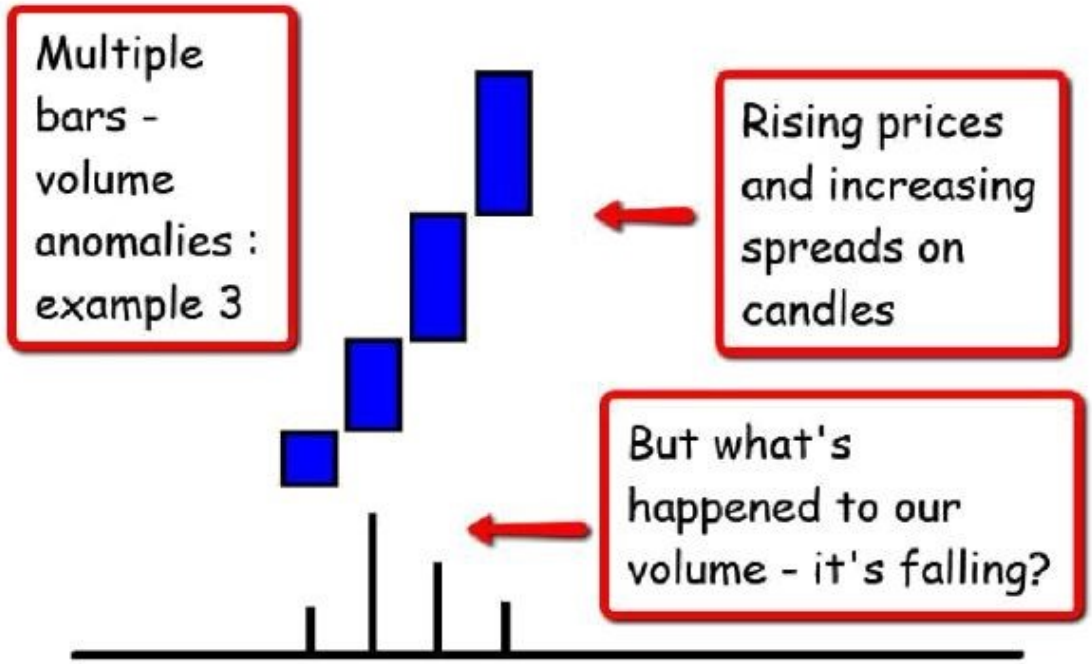


Fig 4.16 Multiple Bar Anomalies In An Uptrend

In the above illustration, first candle has low spreads accompanied by low volume. The price is validating volume. The spreads of second candle increases relatively to the previous candle's spreads and volume also increases relatively. Once again price is validating volume. The spreads of third candle is larger than the previous candle's spreads but the volume decreases relatively to the previous volume. The price has an anomaly with volume. We also have another anomaly here and that is with increasing upward momentum, volume is decreasing. The spreads of fourth

candle is larger than the previous candle's spreads but the volume of fourth candle is lower than the volume of the third candle. The price has an anomaly with volume. We also have another anomaly here and that is with increasing upward momentum, volume decreases.

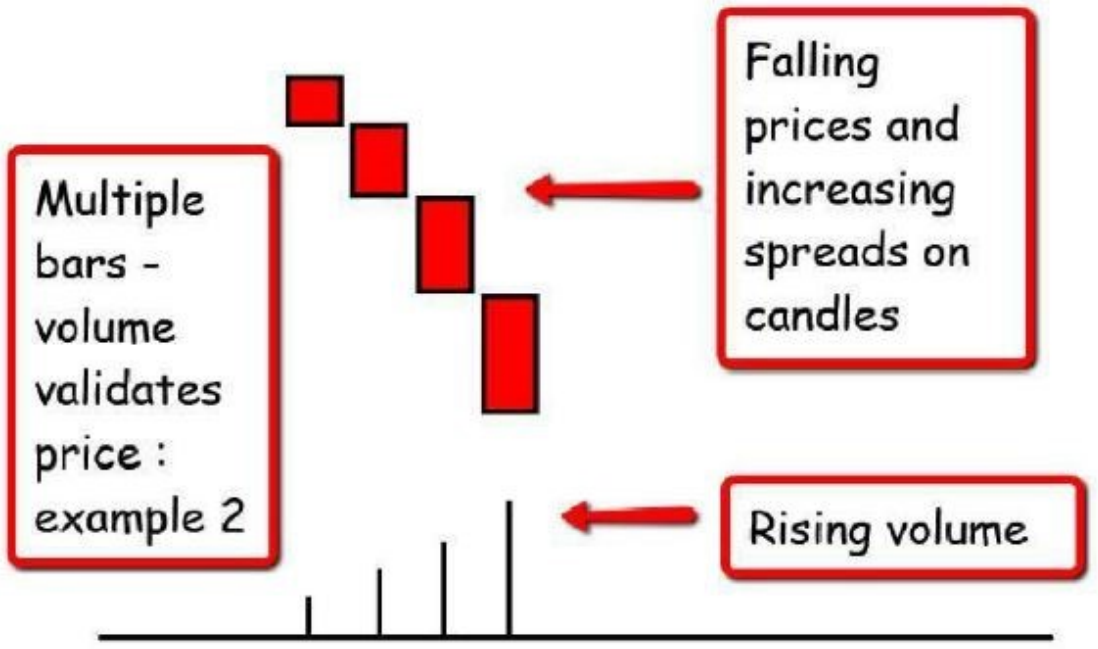


Fig 4.15 Multiple Bar Validation In Down Trend

In the above illustration, first candle has low spreads accompanied by low volume. The price is validating volume. The spreads of second candle increases relatively to the previous candle's spreads and volume also increases relatively. Once again price is validating volume. The spreads of third candle is larger than the previous candle's spreads and volume also increases relatively. The price is validating volume. We also have another validation here and that is with increasing downward momentum, volume also increases. The spreads of fourth candle is larger than the previous candle's spreads and volume also increases relatively. The price is validating volume. We also have another validation here and that is with increasing downward momentum, volume also increases.

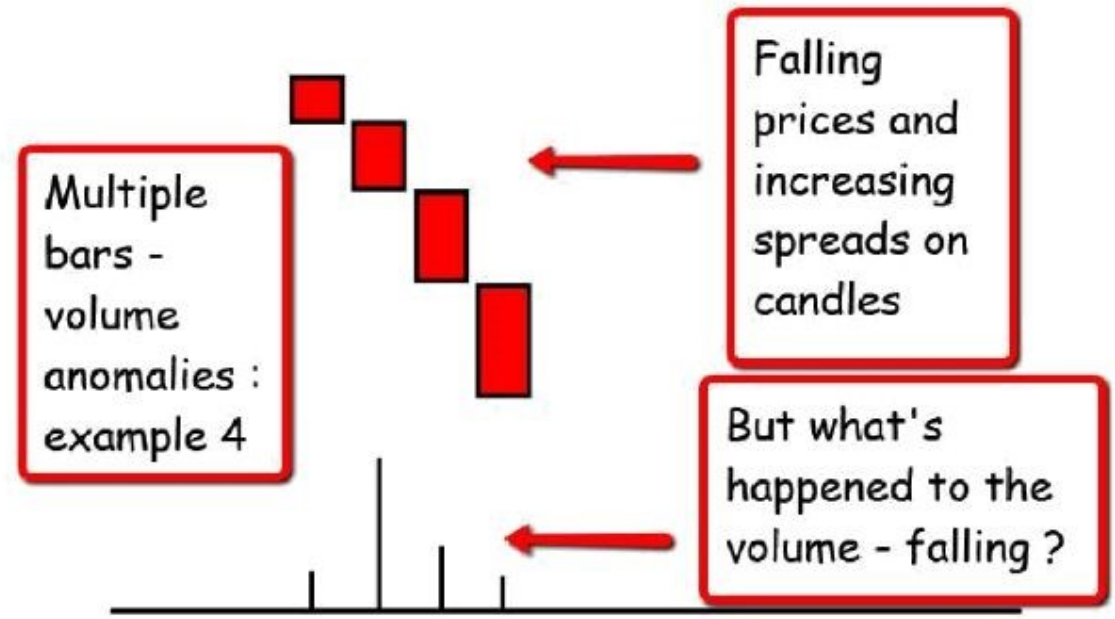
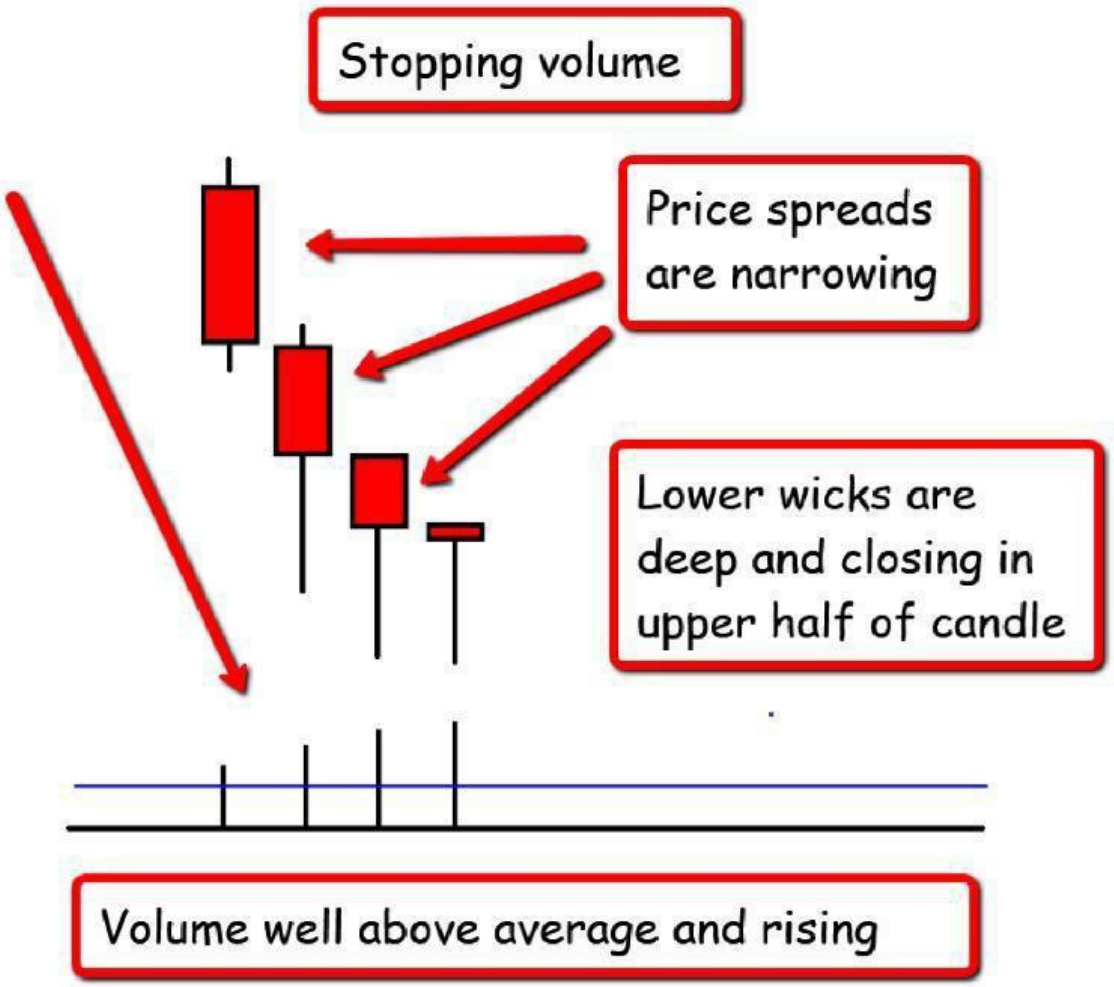


Fig 4.17 Multiple Bar Anomalies In A Downtrend

In the above illustration, first candle has low spreads accompanied by low volume. The price is validating volume. The spreads of second candle increases relatively to the previous candle's spreads and volume also increases relatively. Once again price is validating volume. The spreads of third candle is larger than the previous candle's spreads but the volume decreases relatively to the previous volume. The price has an anomaly with volume. We also have another anomaly here and that is with increasing downward momentum, volume is decreasing. The spreads of fourth candle is larger than the previous candle's spreads but the volume of fourth candle is lower than the volume of the third candle. The price has an anomaly with volume. We also have another anomaly here and that is with increasing downward momentum, volume decreases.

Stopping Volume

This is what the price action looks like as the brakes are applied by the insiders, and is generally referred to as stopping volume. As I have said many times before, the market is like an oil tanker. It never reverses on a dime for many reasons, not least because just like a super tanker it has momentum, and therefore takes time to respond, once the brakes are applied.



In Fig given above we are in a strong down trend, the price waterfall has been in action and the market has been moving lower fast. However, the insiders now want to start slowing the rate of descent, so start to move in and begin the buying process. This buying is then seen in subsequent candles with deep lower wicks, but generally with relatively deep bodies. However, for additional strength in the signal, the close of the candle should be in the upper half of the open and close price. This is not a hard and fast rule, but generally describes the candles as shown in Fig given above.

What is happening, is that the weight of the selling pressure has become so great at this point, that even the insiders moving into the market have insufficient muscle to stop the market falling in one session. It takes two or three sessions for the brakes to be applied and is like our tanker. Switch off the engines and the ship will continue for several miles. It's the same with the markets, particularly when you remember that markets fall faster than they rise. In a market that is being driven by panic selling, the pressure is enormous.

The insiders move in and manage to absorb some of this pressure with prices recovering in the session, to close well off the lows of session thereby creating the deep lower wick. The selling then continues into the next session, and the insiders come in again with higher volumes, driving the price back higher off the lows, and perhaps with a narrower body on the candle, signalling that the buying is now starting to absorb the selling to a greater extent. Next, we see another candle with a narrower body and a deep wick. Finally, we see our first hammer candle.

The sequence of candles in Fig given above is an almost perfect example, and if we do see this combination following a sharp move lower, then we would be on full alert for the forthcoming move higher.

Stopping volume is exactly that. It is the volume of the insiders and professional money coming into the market and stopping it falling further. It is a great signal of impending strength, and a potential reversal in the bearish trend to a bullish trend. It is the precursor to the buying climax which should follow as the last remnants of selling pressure are mopped up, the warehouses are filled to over flowing, and the insiders are ready to go. You should be to!!

Topping Out Volume

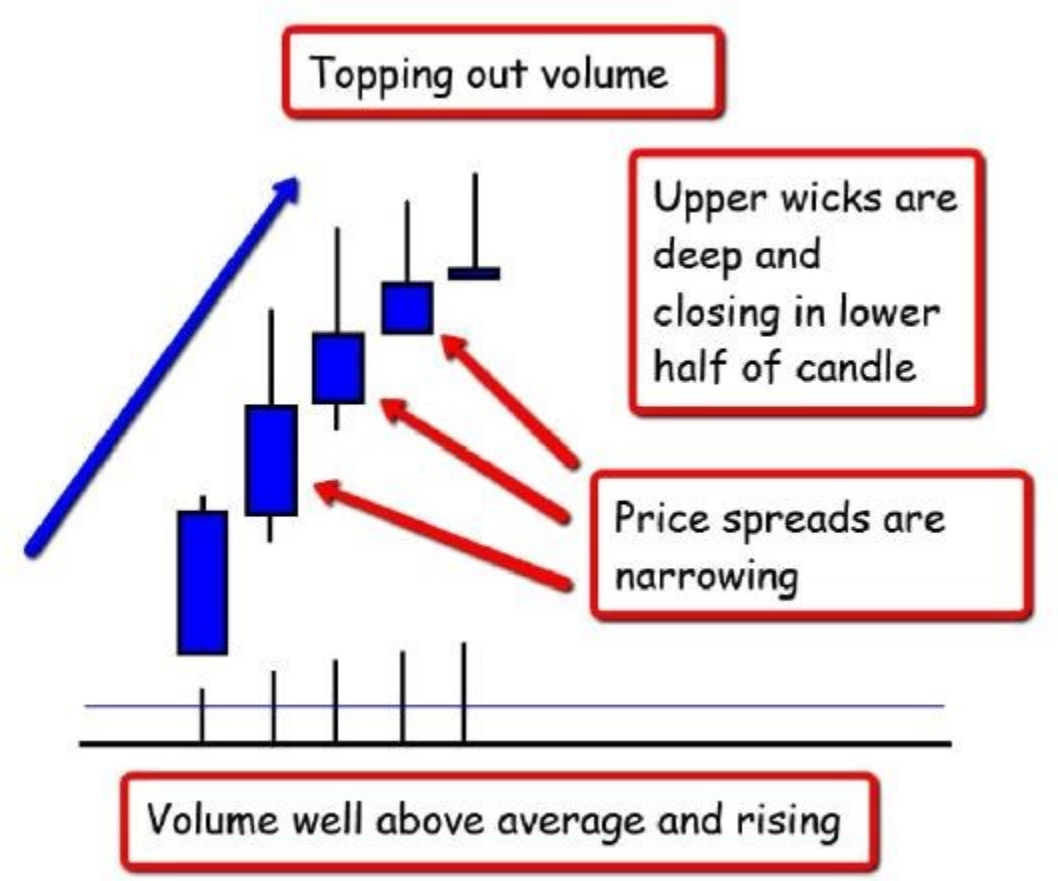
Price action - weakness

The clue is in the name! Just as stopping volume was stopping the market from falling further, so topping out volume is the market topping out after a bullish run higher.

Once again, the market does not simply stop and reverse, it has momentum, both in up trends and in down trends. The down trend pressure is certainly more intense as the market is generally moving faster. Nevertheless, in an uptrend we still have momentum generated by the insiders driving demand. Traders and investors are jumping into the market, driven by greed and fear of missing out on easy profits. The volumes are high and rising, and the insiders are now selling into this demand, driving the market higher into this selling pressure, which is building. This is the

price action we are seeing reflected in the deep upper wicks to each subsequent candle.

At this point it is becoming increasingly difficult for the insiders to keep the market momentum going, as they continue to sell at this level, with the candles creating the ‘arcing pattern’ as the spreads narrow and the price rise slows. Volumes are well above average and probably high or ultra-high.



In Fig given above the last candle in this 'perfect' schematic is our old friend, the shooting star. We are now looking at the distribution phase which then culminates in the selling climax, before moving off to the next phase of the market cycle.

These then are the candles, candle patterns and associated volume, you will be looking for in all markets, in all instruments and all time frames. They are the MAJOR signals which are the wake up call to you as a VSA trader. They may be on a tick chart, they may be on a time chart. It makes no difference. The analysis of volume and price makes no distinction. Once you have practised using the basic principles that we have covered in the last few chapters, and further techniques you will learn in the following chapters, you will be ready to apply your new found

knowledge and skills to any market. VSA is simple, powerful and it works, and once learnt is never forgotten.

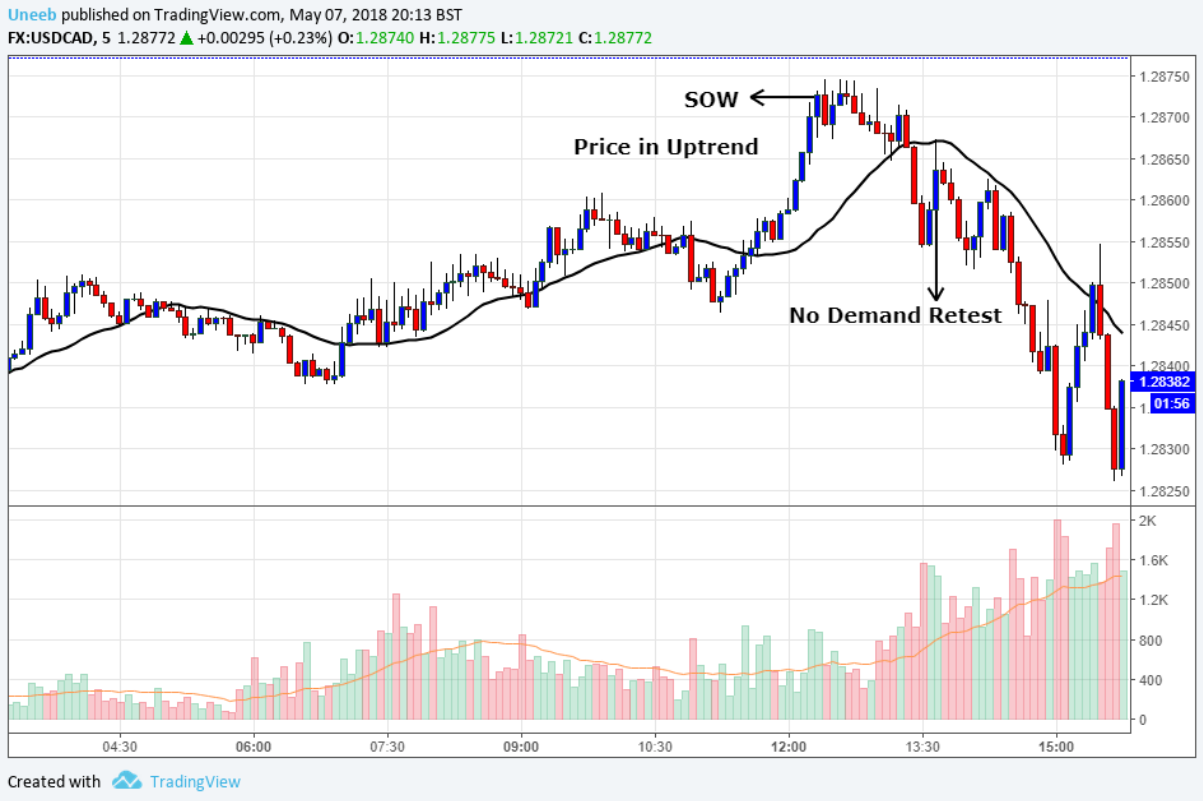
There are many other candles and candle patterns in candlestick analysis, but as I said earlier, this is not a book about Japanese candlesticks. The ones I have illustrated here, are those that I look for all the time. They are the 'king pins' around which VSA revolves. Understand and recognise these instantly, and you will be amazed how quickly you will become confident and assured in your trading decisions. More importantly, if you have a position in the market you will have the confidence to stay in that position, and exit when your VSA analysis signals tell you to close out.

In the next few chapters we are going to build on our knowledge, and add further techniques, before finally putting it all together with annotated examples from live charts.

Low Volume Retest of SOW

We require Retest of SOW only during an uptrend according to the Wyckoff principle. This is because SOW supports bearish rally which in this case is against the direction of the trend. So we require Retest of SOW as a confirmation of having enough energy to fight against the prevailing trend so that we can be convinced to go short. Retest can come in two forms:

1) Low Volume SOW retest of previous SOW
2) No Demand retest of SOW





Please note down the fact that we should not consider the high volume SOW retest of previous SOW. If high volume SOW Retest of last SOW appears then we should discard the trade. We consider such retest as a failed retest.



Low Volume Retest of SOS

We require Retest of SOS only during downtrend according to the Wyckoff principle. This is because SOS supports bullish rally which in this case is against the direction of the trend. So we require Retest of SOS as a confirmation of having enough energy to fight against the prevailing trend so that we can be convinced to go long. Retest can come in two forms:

1) Low Volume SOS retest of previous SOS

2) No Supply retest of SOS

Please note down the fact that we should not consider the high volume SOS retest of previous SOS. If high volume SOS Retest of last SOS appears then we should discard the trade. We consider such retest as a failed retest.


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FX:USDCAD, 5 1.28892 ▲ +0.00415 (+0.32%) O:1.28862 H:1.28893 L:1.28859 C:1.28892
Price In Downtrend
SOS
No Supply retest of previous SOS
1.28704
04:43
11:30
12:00
12:30
13:00
13:30
14:00
14:30
15:00
15:30
Created with TradingView


Uneeb published on TradingView.com, May 07, 2018 20:32 BST
FX:USDCAD, 5 1.28958 ▲ +0.00481 (+0.37%) O:1.28934 H:1.28959 L:1.28915 C:1.28958
SOS 1
SOS 2 = Low Volume SOS Retest of SOS 1
1.26187
02:54
09:00
10:00
11:00
12:00
13:00
14:00
15:00
16:00
Created with TradingView



No Retest Condition for SOS:

During an uptrend, we do not require retest of SOS. This is because SOS supports uptrend. Since we have the Bullish momentum supporting the SOS so we do not need any further confirmation in the form of retest of SOS to go long. We can go long during uptrend whenever the SOS signal or no Supply Signal appears.

No Retest Condition for SOW:

During a downtrend, we do not require retest of SOW. This is because SOW supports downtrend. Since we have the bearish momentum supporting the SOW so we do not need any further confirmation in the form of retest of SOW to go short. We can go short during downtrend whenever the SOW signal or no Demand Signal appears.

Wyckoff Methodology

1. During an uptrend when SOS signal appears, we go long

2. During an uptrend when SOW signal appears, we need retest of that SOW in order to go short.

3. During a downtrend when SOW signal appears, we go short.

4. During a downtrend when SOS signal appears, we need retest of that SOS in order to go long.

5. During an uptrend when SOW signal appears then we need a retest of that SOW before we can go short. Before retest of SOW signal could appear, we observe that SOS signal appears right after the SOW. The simultaneous occurrence of SOW and SOS, creates consolidation/congestion zone. We draw horizontal line at SOS to mark the support of consolidation. We draw horizontal line at SOW to mark the resistance of consolidation. The area bounded by this support and resistance line is known as consolidation one.

6. During a downtrend when SOS signal appears then we need a retest of that SOS before we can go long. Before retest of SOS signal could appear, we observe that SOW signal appears right after the SOS. The simultaneous occurrence of SOW and SOS, creates consolidation/congestion zone. We draw horizontal line at SOS to mark the support of consolidation. We draw horizontal line at SOW to mark the resistance of consolidation. The area bounded by this support and resistance line is known as consolidation one.

7. Consolidation zones are directionless

8. When SOS signal appears during consolidation then we need to wait for the low volume SOS retest of previous SOS in order to go long. This is because consolidation zones are directionless.

9. When SOW signal appears during consolidation then we need to wait for the low volume SOW retest of previous SOW in order to go short. This is because consolidation zones are directionless.

10. We can trade the breakout of consolidation zone. The breakout candle of the consolidation zone must increase in spreads as compared to the previous candle. If this criteria is fulfilled then we look for the cause of the breakout.

If the breakout occurs at the resistance of the consolidation then we must see that the spread of the breakout candle must increase as compared to the previous candle and volume must also increase. If this criteria is fulfilled then we look for Low Volume SOS Retest of the previous SOS. If this criteria is also fulfilled then we can trade the breakout.

If the breakout occurs at the support of the consolidation then we must see that the spread of the breakout candle must increase as compared to the previous candle and volume must also increase. If this criteria is fulfilled then we look for Low Volume SOW Retest of the previous SOW. If this criteria is also fulfilled then we can trade the breakout.

11. Sometimes the breakout fails. We can use the knowledge of VSA to identify and trade failed breakouts.

If the breakout appears at the resistance and we see that the breakout candle spreads has increased as compared to the previous candle but the volume has decreased. We qualify it as fake out or false breakout. We must now look for SOW sign appearing after the false breakout in order for us to go short.

If the breakout appears at the resistance and we see that the breakout candle spreads has increased as compared to the previous candle and the volume has also increased. Now we look for SOS retest of previous SOS before the breakout. If SOS retest of previous SOS is on high volume then we cannot trade breakout. We must look for SOW sign after the breakout to go short.

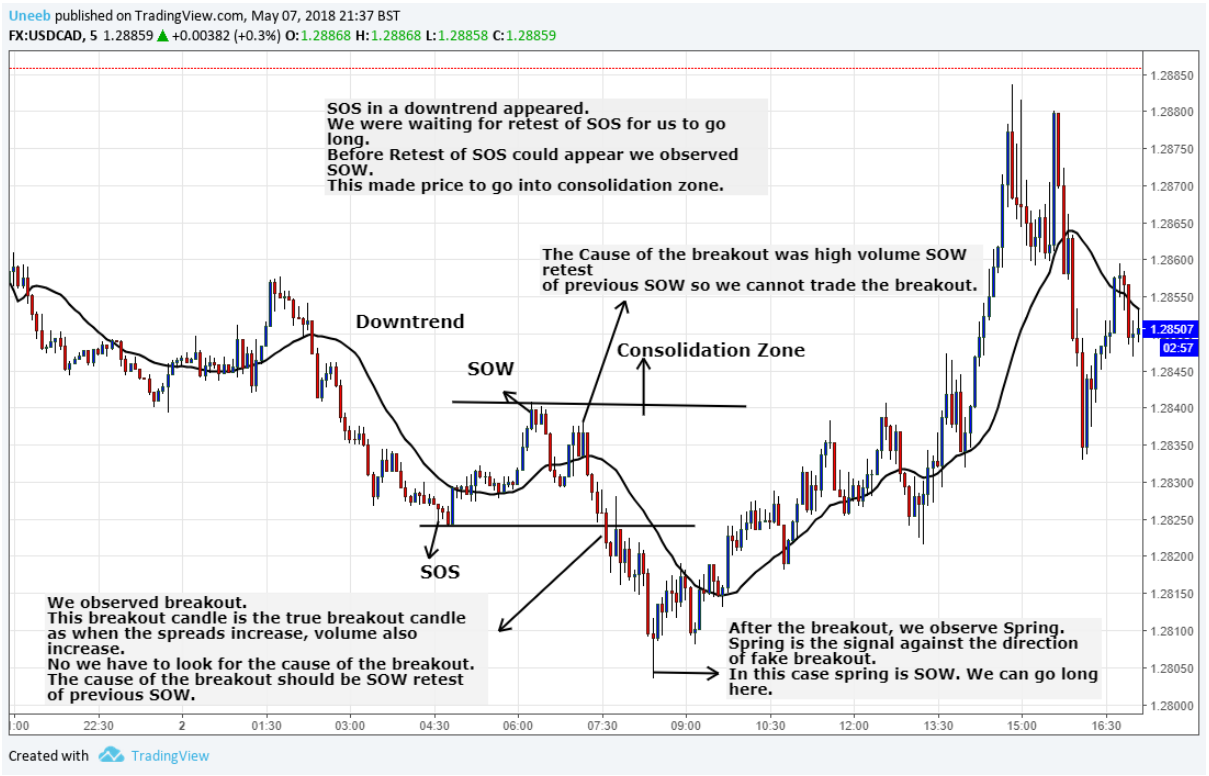
If the breakout appears at the support and we see that the breakout candle spreads has increased as compared to the previous candle but the volume has decreased.

We qualify it as fake out or false breakout. We must now look for SOS sign appearing after the false breakout in order for us to go long.

If the breakout appears at the support and we see that the breakout candle spreads has increased as compared to the previous candle and the volume has also increased. Now we look for the SOW retest of previous SOW. If the retest SOW is on high volume as compared to previous SOW then we can't trade breakout. We must now look for SOS after breakout in order for us to go long.

12. No Demand bar is a bearish momentum continuation signal that has its effectiveness if followed by SOW. No Demand occurring after a minor retracement can be a strong signal of bearish trend continuation. No Demand occurring after a deep retracement is a very weak signal of bearish trend continuation.

13. No Supply bar is bullish momentum continuation signal that has it effectiveness if followed by SOS. No Supply occurring after a minor retracement can be a strong signal of bullish trend continuation. No Supply occurring after a deep retracement is a very weak signal of bullish trend continuation.

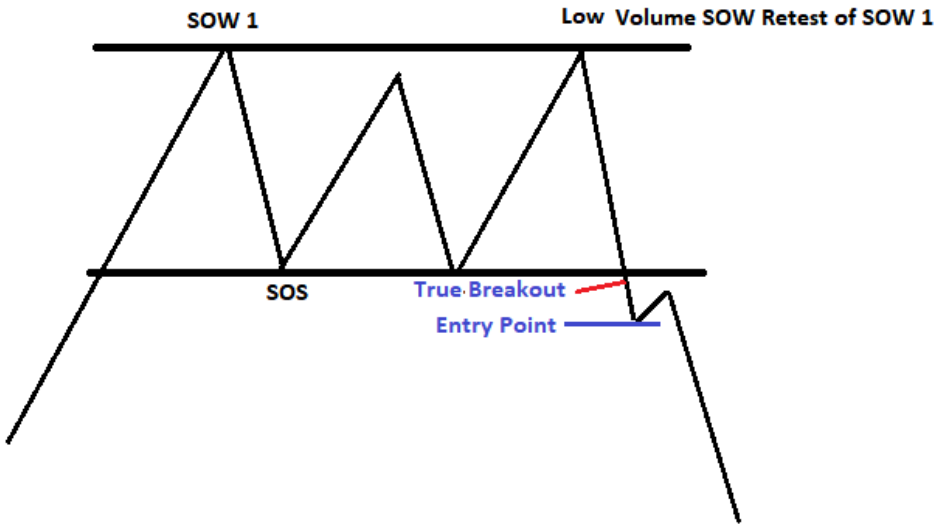




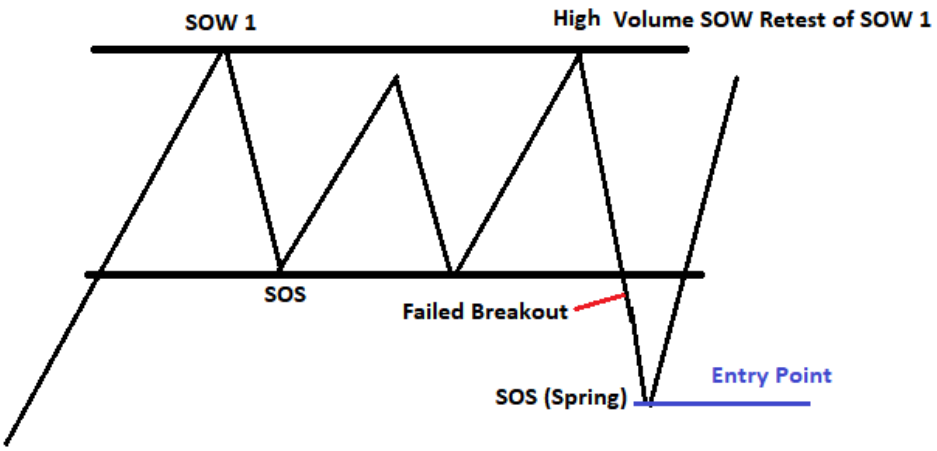
In both of the illustrations given above we studied a new property of VSA known as spring. We will define spring below:

- In a congestion/consolidation zone, when the breakout towards the resistance fails due to false breakout occurring due to anomaly between price and volume or true breakout preceded by the High Volume SOS retest of previous SOS resulting in failed breakout, the first SOW observed after failed or false breakout is known as spring. We can go short on the occurrence of spring. However, we must take care of the trend momentum. Usually, if the trend direction is upward, the first spring usually fails. We can trade the second spring in this case.
- In a congestion/consolidation zone, when the breakout towards the support fails due to false breakout due to anomaly between price and volume or true breakout preceded by the High Volume SOW retest of previous SOW resulting in failed breakout, the first SOS observed after failed or false breakout is known as spring. We can go long on the occurrence of spring. However, we must take care of the trend momentum. Usually, if the trend direction is downward, the first spring usually fails. We can trade the second spring in this case.

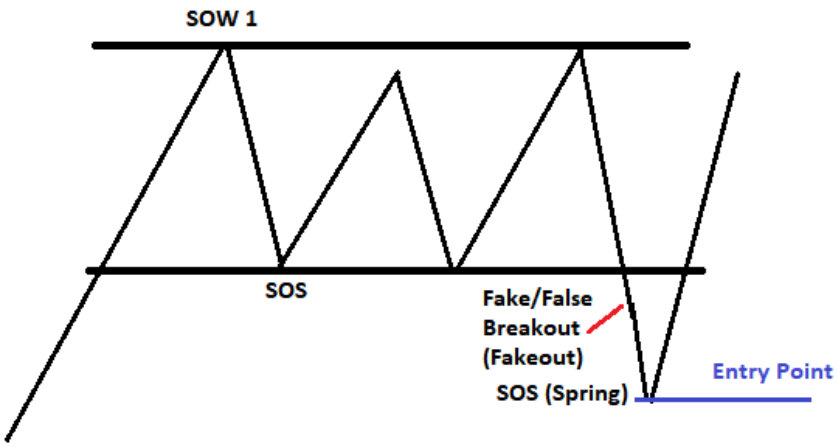
If the breakout occurs at the support of the consolidation then we must see that the spread of the breakout candle must increase as compared to the previous candle and volume must also increase. If this criteria is fulfilled then we look for Low Volume SOW Retest of the previous SOW. If this criteria is also fulfilled then we can trade the breakout.



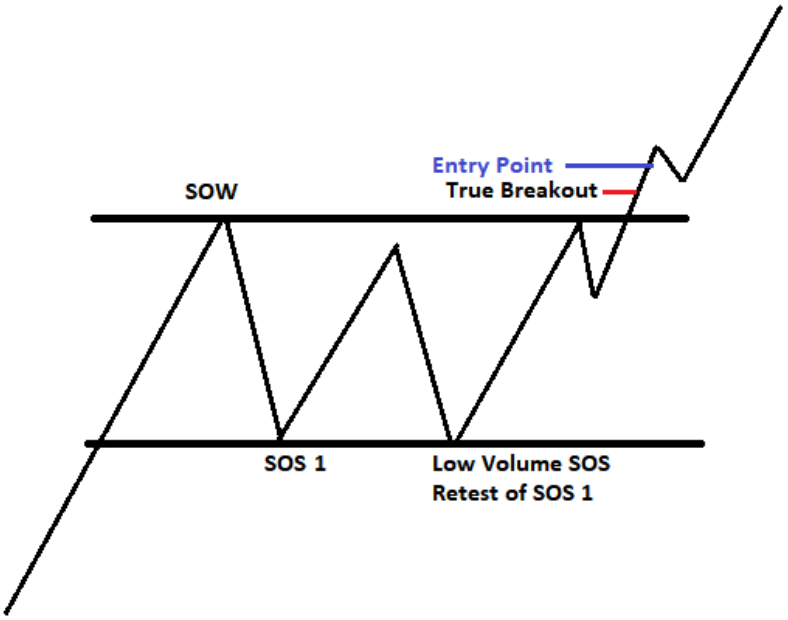
If the breakout appears at the support and we see that the breakout candle spreads has increased as compared to the previous candle and the volume has also increased. Now we look for the SOW retest of previous SOW. If the retest SOW is on high volume as compared to previous SOW then we can't trade breakout. We must now look for SOS after breakout in order for us to go long.



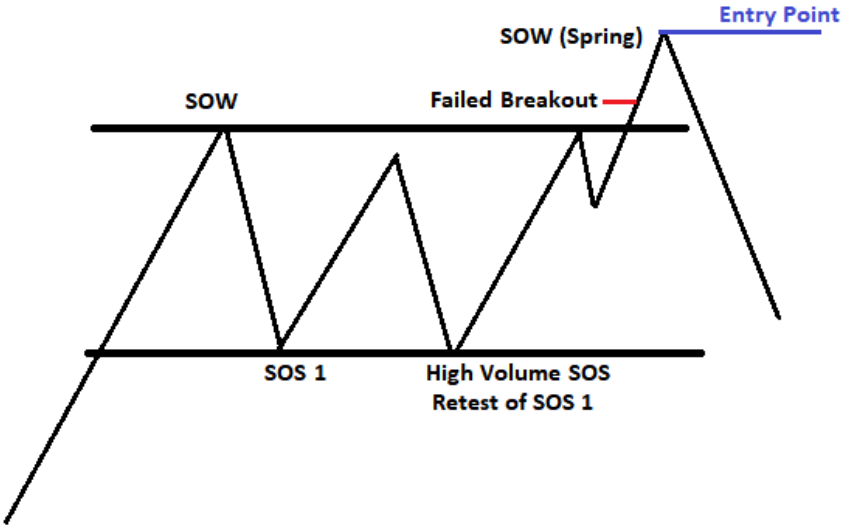
If the breakout appears at the support and we see that the breakout candle spreads has increased as compared to the previous candle but the volume has decreased. We qualify it as fake out or false breakout. We must now look for SOS sign appearing after the false breakout in order for us to go long.



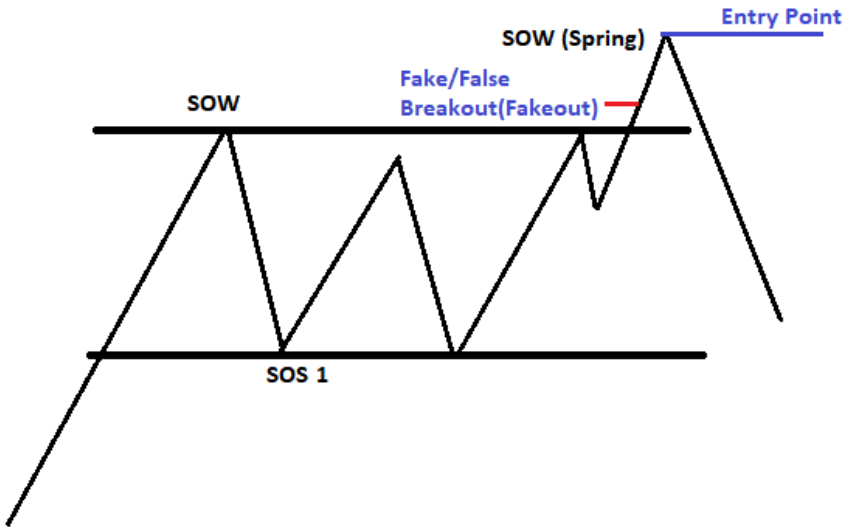
If the breakout occurs at the resistance of the consolidation then we must see that the spread of the breakout candle must increase as compared to the previous candle and volume must also increase. If this criteria is fulfilled then we look for Low Volume SOS Retest of the previous SOS. If this criteria is also fulfilled then we can trade the breakout.



If the breakout appears at the resistance and we see that the breakout candle spreads has increased as compared to the previous candle and the volume has also increased. Now we look for SOS retest of previous SOS before the breakout. If SOS retest of previous SOS is on high volume then we cannot trade breakout (Failed Breakout). We must look for SOW sign after the breakout to go short.



If the breakout appears at the resistance and we see that the breakout candle spreads has increased as compared to the previous candle but the volume has decreased. We qualify it as fake out or false breakout. We must now look for SOW sign appearing after the false breakout in order for us to go short.

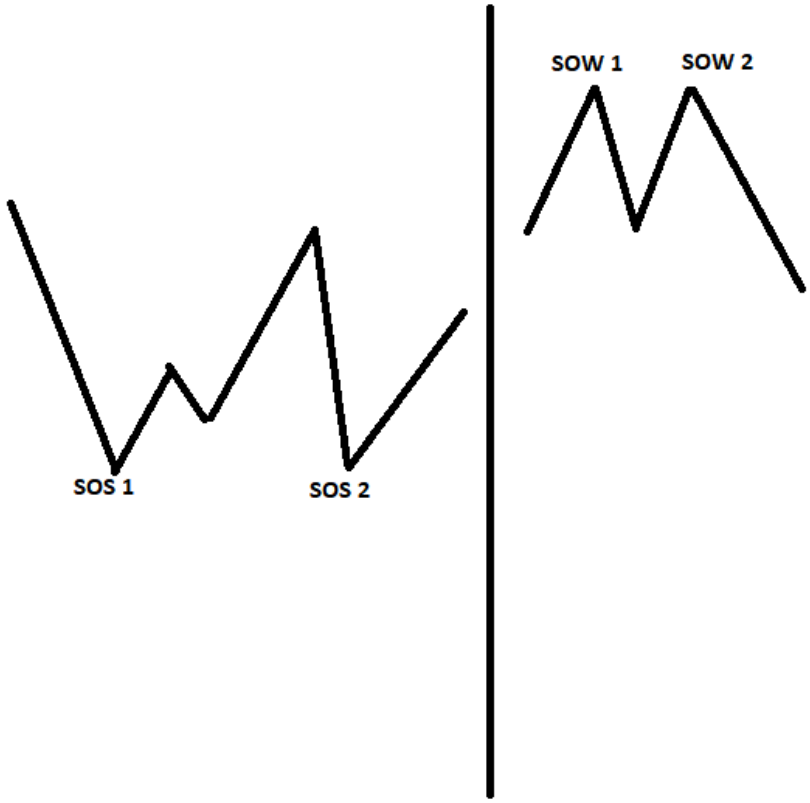


Please Note down the facts:

When we are looking for SOS retest during breakout of resistance then we are only interested in High or Low Volume SOS retest of previous SOS to detect the cause of the breakout. We are not interested in no supply test of previous SOS as no supply test is the continuation of the move not the origin or cause of the move. This condition is only applicable during breakouts scenarios.

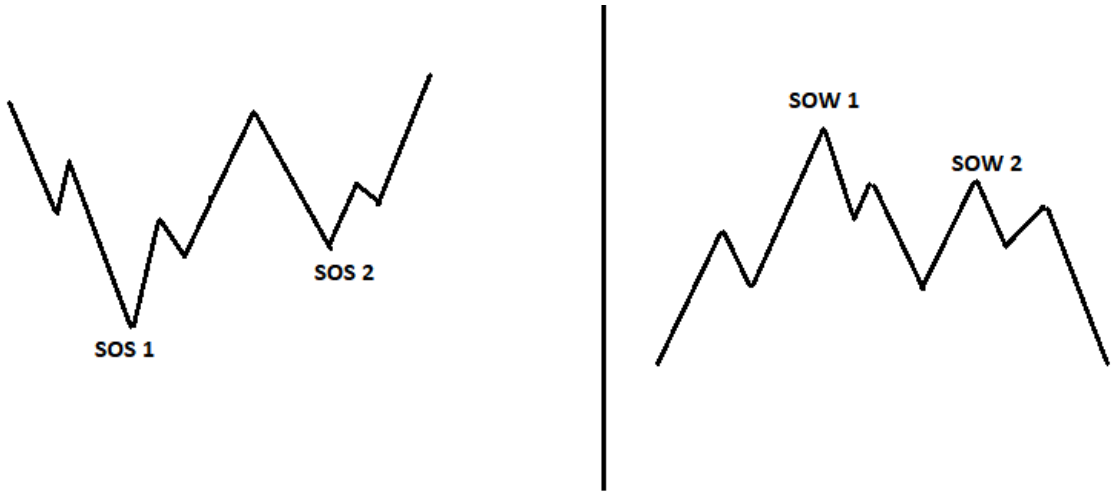
When we are looking for SOW retest during breakout of support then we are only interested in High or Low Volume SOW retest of previous SOW to detect the cause of the breakout. We are not interested no demand test of previous SOW as no demand test is the continuation of the move not the origin or cause of the move. This condition is only applicable during breakouts scenarios.

How to define Valid Retest Correctly?



Valid SOS retest occurs when price falls down and forms SOS. Then moves up due to SOS effect and then falls back down at the same previous level of SOS 1 to form SOS 2. We say that SOS 2 retested SOS 1

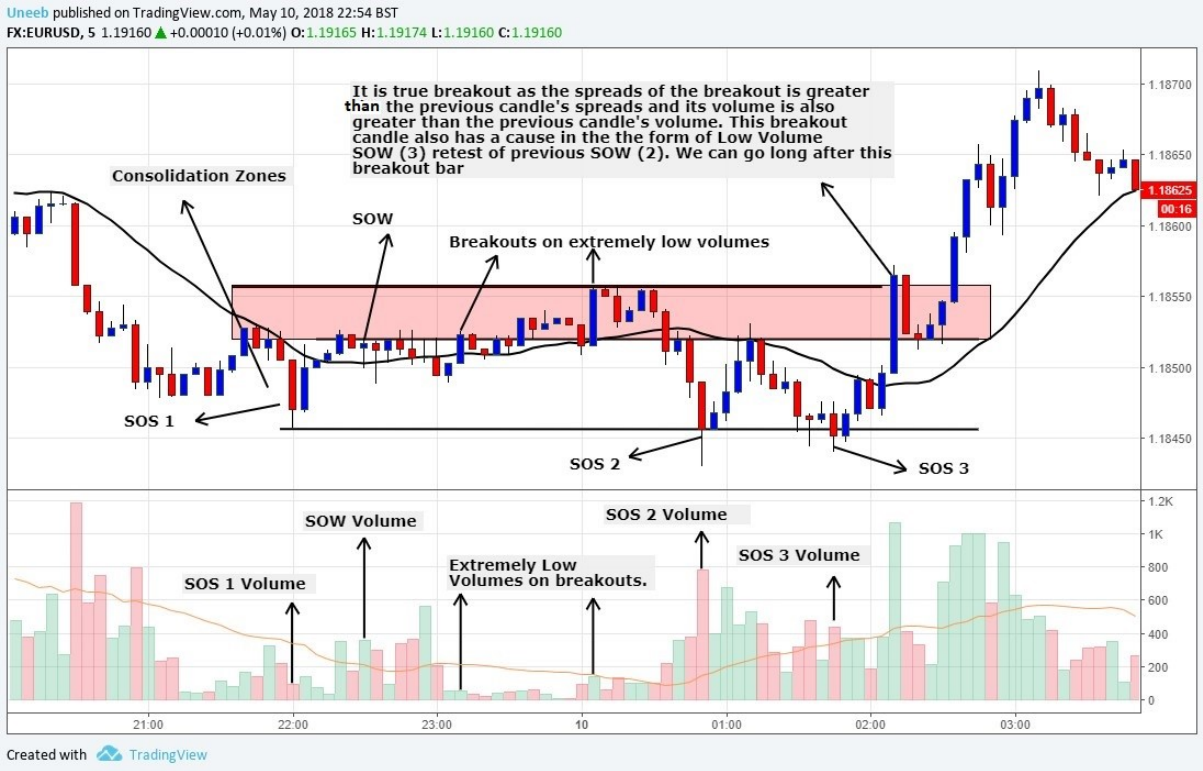
Valid SOW retest occurs when price goes up and forms SOW. Then moves down due to SOW effect and then falls comes back up again at the same previous level of SOW 1 to form SOW 2. We say that SOW 2 retested SOW 1.



Valid SOS retest occurs when price falls down and forms SOS. Then moves up due to SOS effect and then falls back down not necessarily to the same level of SOS 1 but is the second follow up SOS after SOS 1 formed during a corrective wave to form SOS 2. We say that SOS 2 retested SOS 1.

Valid SOW retest occurs when price goes up and forms SOW. Then moves down due to SOW effect and then falls comes back up again not necessarily at the same previous level of SOW 1 but is the second follow up SOW after SOW 1 formed during a corrective to form SOW 2. We say that SOW 2 retested SOW 1.

TASK: READ THE ILLUSTRATION GIVEN BELOW BASED ON WYCKOFF'S RULES LEARNT SO FAR!



From the above illustration we can derive another concept: If breakouts occur on extremely low volumes then discard it (Don't trade it)!

Let's interpret the above chart:

We say SOS 1 which was bearish effort with no result. Since we are in down trend, we will wait for Low Volume retest of SOS 1 in order to go long since we are against the trend. Before low volume retest of SOS 1 could appear, we saw the SOW. We can now draw the horizontal lines at SOW and SOS 1 to mark support & resistance lines. The area between support and resistance is consolidation. The price tried to breakout from the resistance twice but on extremely low volume so we can discard this setup and wait. Two failure breakouts can assist us to extend the resistance line to resistance zone. We now again formed SOS 2 which was a high volume retest of SOS 1 so we can discard this setup and ignore SOS 1 signal. Then sometimes later, we got low volume SOS 3 retest of SOS 2. We can go long here logically but we are still inside the consolidation zone. We will wait for the breakout. The price broke out towards the resistance zone on increasing spreads and increasing volume as compared to the previous candle. The first criteria of the true breakout is fulfilled. Now we will check for the second criteria and that

criteria is whether true breakout candle has a cause? Yes we have cause in the form of Low Volume SOS 3 retest of SOS 3. Now we have enough information to go long on the closing of breakout candle.

How to trade News using VSA: The diagram below explains how to trade news using VSA. This illustration shows how VSA fulfills the requirement of fundamental analysis.



In the figure given above, Candle A appears at news. Candle A is down thrust SOS. We were previously in an uptrend so at occurrence of SOS, we should logically the trade. However, we will not take the trade as we are in a period of high volatility. In such cases, we will only take trades with low volume retest confirmations for both SOS and SOW. Now we are waiting for the low volume SOS retest of previous SOS, we observe that the price forms up thrust + low effort high result at candle X which is SOW. From, Wyckoff's principles we know that price when bounded between SOS and SOW marks consolidation/congestion. We can draw horizontal lines at candle x and at candle A to mark support & resistance of consolidation and area between these support & resistance lines is the consolidation zone. At candle B, we get no supply retest of Candle A. We will not take this trade as we are between the consolidation zone formed due to news. At candle C, we got the low

volume SOW retest of Candle X SOS. We will not take the trade because we are between the consolidation zone formed due to news. At candle D, we finally broke out of the consolidation zone and Candle D was a down thrust spring occurred after the failure of breakout of the consolidation zone. We can go long here.



In the figure above, at Candle A, clusters of news came out. Candle A was Selling climax SOS. We also saw that at Candle A, we observed stopping volume because as we go down in a downward momentum, the spreads decreases but volume increases. We cannot take this trade on the occurrence of SOS due to two reasons:

1) *SOS appeared against the direction of trend*
2) *SOS appeared during the news.*

We will wait for the low volume SOS retest of Candle A SOS, in order to go long. At candle B, we noticed pseudo down thrust which signals further strength indicating that more buyers are coming in. At candle C, we observed inverse pseudo down thrust which is a signal that buyers are overwhelming sellers. Candle B and Candle C are no supply retest of Candle A SOS.

AT Candle D, we got another SOS which is a LOW Volume retest of SOS created by Candle A. This gives us enough conviction that buyers are in now control and sellers have control lost the control. We can go long here.

Trading Shakeouts with VSA

There are two types of Shakeouts:

- Resistance Shakeout
- Support Shakeout

Resistance shakeout occurs when the price is in consolidation zone and creates SOW 1 followed by SOW 2 which is low volume retest of SOW 1. Then before the price breaks the support level of consolidation zone, the price breaks resistance level and then returns back to consolidation. This act of price is known as the shakeout.

Support Shakeout occurs when the price is in consolidation zone and creates SOS 1 followed by SOS 2 which is low volume retest of SOS 1. Then before the price breaks the resistance level of consolidation zone, the price breaks support level and then returns back to consolidation. This act of price is known as the shakeout.

Shakeout is illustrated in the illustration given below!



Using Volume Decline and Incline to identify Impulsive and Corrective Wave

Volume can be used to identify to Impulsive and corrective wave. First let's understand what is impulsive wave and corrective wave.

Impulsive wave is a wave that is in the direction of a trend. Corrective wave is a wave that is against the direction of trend. If the price is in uptrend then the up move in the direction of uptrend is an impulsive wave meanwhile down move against the direction of the uptrend is a corrective Wave. If the price is in downtrend then the down move in the direction of downtrend is an impulsive wave meanwhile up move against the direction of the down trend is a corrective Wave.

Charles Dow suggested that during an impulsive wave, the volume will increase. Meanwhile during corrective wave, the volume will decrease.

See the illustration below to understand how we can analyse volume to detect corrective and impulsive waves.



In the illustration given above, the price is predominately in a downtrend. We saw the move up against the direction of the trend as marked Red Arrow but the volume is also increasing as marked in red arrow. This shows that there is anomaly between price and volume and we cannot classify it as corrective wave yet as the volume is not decreasing. The price resumed a down move then in the direction of the trend as marked by orange arrow. Volume is also increasing as marked by orange arrow. This is impulsive wave. Then price again moved up against the direction of trend as marked by black arrow and the volume also increased as marked by black arrow. This show that it is not yet a corrective wave as the volume is not decreasing. Then price again resumed the up move against the direction of the trend as marked by pink arrow but the volume is decreasing as marked by pink arrow. This qualifies as a corrective wave. Now we got SOW in the direction of a trend after corrective wave. We can go short here.



In the illustration given above, we are predominately in downtrend. We saw a move down in the direction of the trend as marked in black arrow and its corresponding volume is also decreasing as marked by black arrow so this means price is in corrective wave. The price again resumed downward in the direction of a trend as marked in blue arrow and its associated volume is also decreasing as marked by blue arrow. This suggests that price is in corrective wave. We then notice an SOS against the direction of downtrend and then we noticed No Supply retest of SOS which indicated us to go long.



The illustration given above is revisited again. This illustration shows that the price is in consolidation phase. We saw a down wave after SOW 2 as marked with blue line and its associated volume is decreasing as marked with blue line. This shows that the down wave after SOW 2 is actually a corrective wave. We can go long on the occurrence of SOS at the end of this down wave in order to go long.

Support and Resistance Explained

So far in this book on Volume Price Analysis we have focused on the 'pure' relationship between volume and price.

In this chapter I am going to introduce the first of our analytical techniques, which helps to give us our 'perspective' on where we are in terms of the price behaviour on the chart. More importantly, when combined with VSA, this technique also reveals when trends are about to start or end, and equally when markets are moving into congestion phases.

To use a building analogy for a moment. If volume and price can be considered the foundations, then the analytical techniques I explain in the next few chapters are the walls, floors, ceilings and the roof. In other words, they provide the framework for volume and price. VSA on its own is extremely powerful. However, what these additional techniques will add are the markers, the signposts if you like, as to where the market is in its longer term journey on the chart.

Perhaps one of the most difficult aspects of trading is managing and exiting any position. As I said earlier, getting in is the easy part, getting out is hard, and this is where these techniques will help in 'mapping' the price action. They are milestones if you like, and understanding these milestones and the messages they convey will then help you to understand not only when a market is about to trend, but also, and perhaps more importantly, when it is coming to an end.

Let me begin with the first of these techniques which is known as support and resistance. Once again, this is a powerful concept which can be applied to any market, any instrument and in any time frame, so whether you are using VSA as a scalping intraday trader, or as a longer term investor, support and resistance is one of the key principles of price behaviour on a chart.

However, the irony of support and resistance is that it is in sharp contrast to VSA itself. Volume Price Analysis focuses on the 'leading' aspects of price behaviour and tries to analyse where the market is heading next. Support and resistance does

this in a different way entirely, by focusing on what has gone before. The history of price behaviour, the 'lagging' aspects of price behaviour.

Despite this irony, it is the combination of the two which gives us a perspective on where the market is in terms of its overall journey. It tells us where the market might pause, breakout, or reverse, both now and in the future, all important markers for the entry, management and exit of trading positions.

Therefore, let me recap the basics of price behaviour. In broad terms a market can only move in one of three ways, up, down or sideways. In other words, a market can only trend higher, trend lower or move sideways in a consolidating phase of price action. Of these three states, markets spend considerably more time moving sideways, than they do trending either higher or lower. As a rough rule of thumb this is generally considered to be around 70% of the time, whilst only trending for 30% of the time. Markets move sideways for all sorts of reasons, but primarily there are three.

First, is the pending release of an item of fundamental news? To see this in action simply watch the price action ahead of the monthly Non-Farm Payroll for example. Prices are likely to trade in a narrow range for several hours ahead of this key release.

Second, markets move sideways in both the selling climax and the buying climax phases, when warehouses are either being filled or emptied by the insiders.

Third and finally, markets move sideways when they run into old areas of price, where traders have been locked into weak positions in previous moves. As the market approaches these areas, speculators and investors grab the chance to exit the market, usually grateful to be able to close out with a small loss.

Whatever the reason, areas of support and resistance will look something like Fig 7.10. This price behaviour appears on all charts, with clearly defined areas where the market has moved sideways for an extended period.

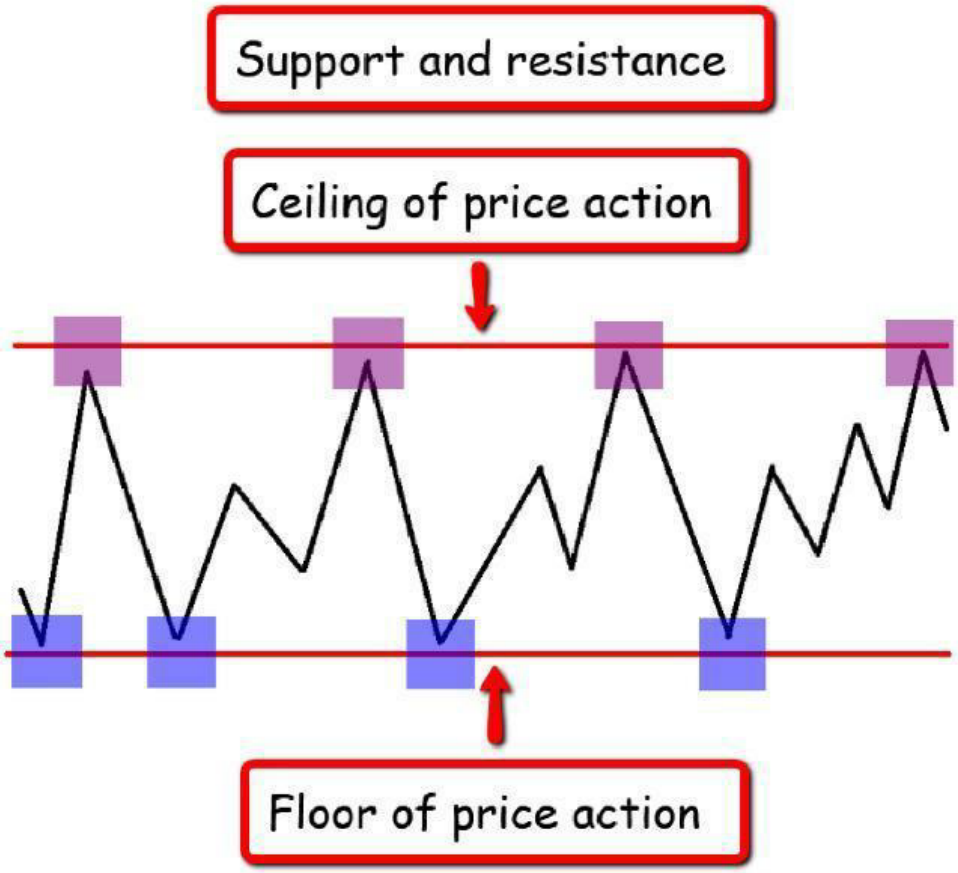


Fig 7.10 Support & Resistance

The analogy that I always use to explain this type of price action is that of a house, with floors and ceilings, which I hope will help to fix this more vividly in your mind's eye. What is happening in the schematic in Fig 7.10?

To begin with the price has fallen, before reversing higher, only to fall back again, before reversing higher again. This zig zag price action is repeated over and over again, and as a result, has created the 'channel' of price action with peaks and troughs as shown on the schematic. This oscillating price action creates what we call the floor of support and the ceiling of resistance. Each time the price action comes down to the floor, it is supported by what appears to be an invisible cushion. Not only does this help to prevent the market from falling further, but also helps the price to bounce higher.

Once the price has bounced off the floor of support, it heads back towards the ceiling of resistance, where an invisible barrier appears again, this time preventing the price moving higher and pushing it back lower again. For any of you who

remember the very first computer games such as ping pong with the two paddles, it is very similar, with the ball, or the market in this case, bouncing endlessly back and forth between the two price levels. At some point the price will break out from this region.

However, before moving on there are several points I would like to examine and the first, and perhaps most obvious is, why this price action is so important. Therefore let me try to address this issue here.

Suppose for a moment that the price action in Fig 7.10 is taking place following a long bullish trend higher, but that this is NOT a selling climax. What is actually happening in this scenario?

First the market has moved higher, buyers are still buying into the trend, but then the price reverses, and moves lower. The buyers are trapped at this higher level, and are now regretting their decision. They are trapped in a weak position. The market moves lower, but then starts to move higher again, as buyers come in at this lower level, fearful they may miss out on another leg higher in the trend. As the market approaches the first reversal point, those buyers in a weak position, sell, glad to exit with a small loss or at break-even. This selling pressure sends the market lower, away from the ceiling level, but with a second wave of buyers now trapped in weak positions at this higher level.

The market then approaches the floor again, where buyers enter, seeing an opportunity to join the bullish trend, and take the market back to the ceiling again, where the second wave of weak traders sell out, and exit with either a small loss or marginal profits. This oscillating price action is then repeated.

At the top of each wave, buyers are left in weak positions, and then sell out on the next wave, to be replaced by more buyers at the top of the wave, who then sell out at the top of the subsequent wave. It is this constant buying and then selling at similar price levels, which creates the 'invisible' bands, which are made visible by joining the highs and lows on the price chart.

The buyers who bought at the floor of the price action, are happy to hold on, expecting higher prices. They have bought at the lower level as the market has pulled back, seen the market rise, and then reverse back to the original entry level. Unlike those buyers who bought at the ceiling level, their positions have never been in loss. So far, all that has happened, is that a potential profit has been reduced back to zero, or close to zero, so these buyers are still hopeful of making a profit from their position. Fear is not yet driving their decision making.

In fact, there is nothing magical about these price levels of the floor and the ceiling. They simply represent the 'extreme' psychological levels of fear and greed in that particular price region and time. We must always remember, price action is fuelled by these two basic emotions, and it is in the price congestion phase of market behaviour, that we see these emotions in their most basic form. At the top of the first wave, greed is the overriding emotion. By the time the market returns on the second wave, fear and relief are the overriding emotion for these traders.

First Principle

The lines we draw on our charts to define the ceiling and the floor of these price regions are NOT rods of steel. Consider them more as rubber, flexible bands. Remember, technical analysis and VSA is an art, and NOT a science. Whilst these levels do constitute barriers and platforms, they are not solid walls, and on occasion you will see them broken, only for the market to then move back into the channel once again. Consider them to be 'elastic' with a little bit of 'give'.

Second Principle

Always remember Wyckoff's second law, the law of cause and effect. If the cause is large, then this will be reflected in the effect, which applies to support and resistance. The longer a market consolidates in a narrow range, then the more dramatic the resulting price action once the market moves away from this region. Naturally this is all relative, not least because a market that has been consolidating on a daily chart for several weeks is likely to trend for a similar period, whilst any breakout from a consolidation phase on a 5 minute chart may only be for an hour or so – it is all relative.

Third Principle

The third principle is perhaps the one which perplexes most new traders and it is this – how do I know when the market is in congestion? After all, it's easy to look back in hindsight and see where the price action has been consolidating for some time, but when the market action is live, it is only 'after the event' that any consolidation phase becomes self-evident.

Isolated Pivot Points

This is where the concept of an isolated pivot high and an isolated pivot low become key signals, and whilst there are indicators available to create these automatically, they are simple to spot visually.

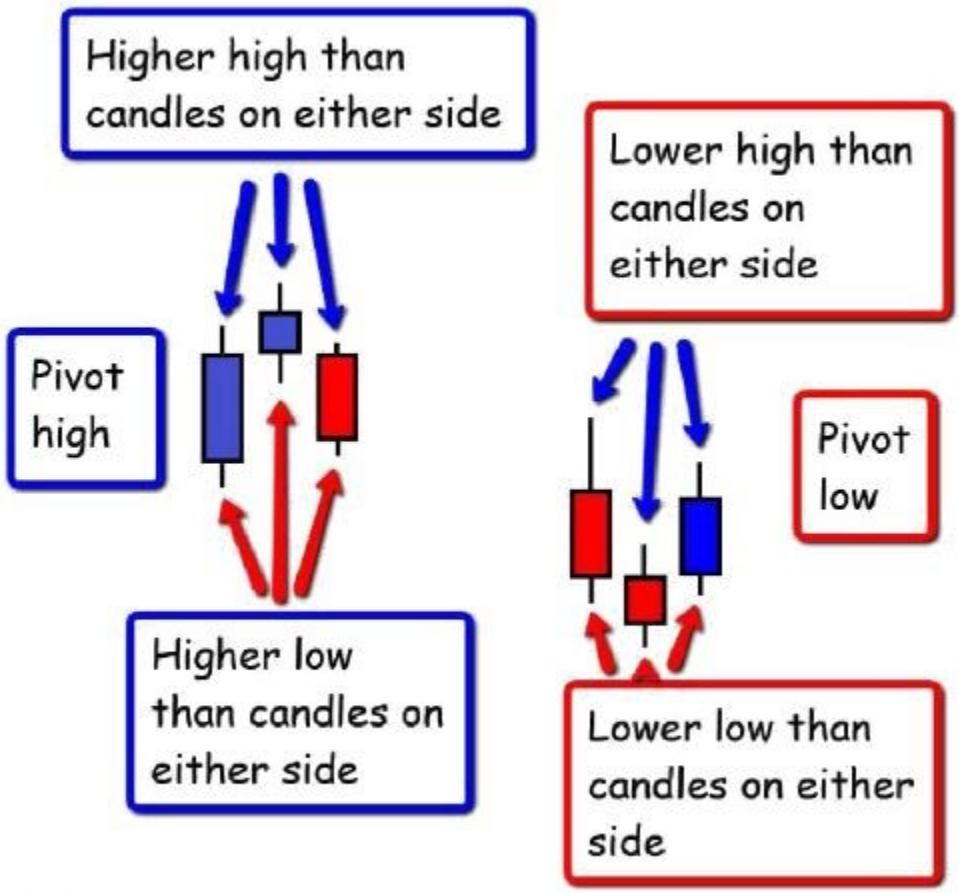


Fig 7.13 Isolated Pivots

These are the defining points for the start of any congestion phase. And the easiest way to understand pivots is to suppose the market is moving higher in an uptrend, and we see an isolated pivot high formed on the chart. We have now seen the first sign of possible weakness in the market. These pivots are created by a three bar/candle reversal and as shown in Fig 7.13 above. To qualify as a three bar/candle reversal the candle in the centre has to post a higher high and a higher low, creating the pivot high pattern. The appearance of one pivot does not mean we are moving into a congestion phase at this point. All we can say at this stage is that we have a possible short term reversal in prospect.

Now we are waiting for our equivalent isolated pivot low to be created. This occurs when we have a three bar/candle pattern where the centre candle has a lower low and a lower high than those on either side. Again we have an example in Fig 7.13.

Once this candle pattern appears on our chart, we can now draw the first two lines to define the ceiling and the floor of our congestion zone. The pivot high is the ceiling and the pivot low is the floor. These simple candle patterns not only define

the start of any congestion phase, they also define the upper and lower levels as the market moves into a period of sideways price action. This is referred to as congestion entrance as we can see in Fig 7.14.

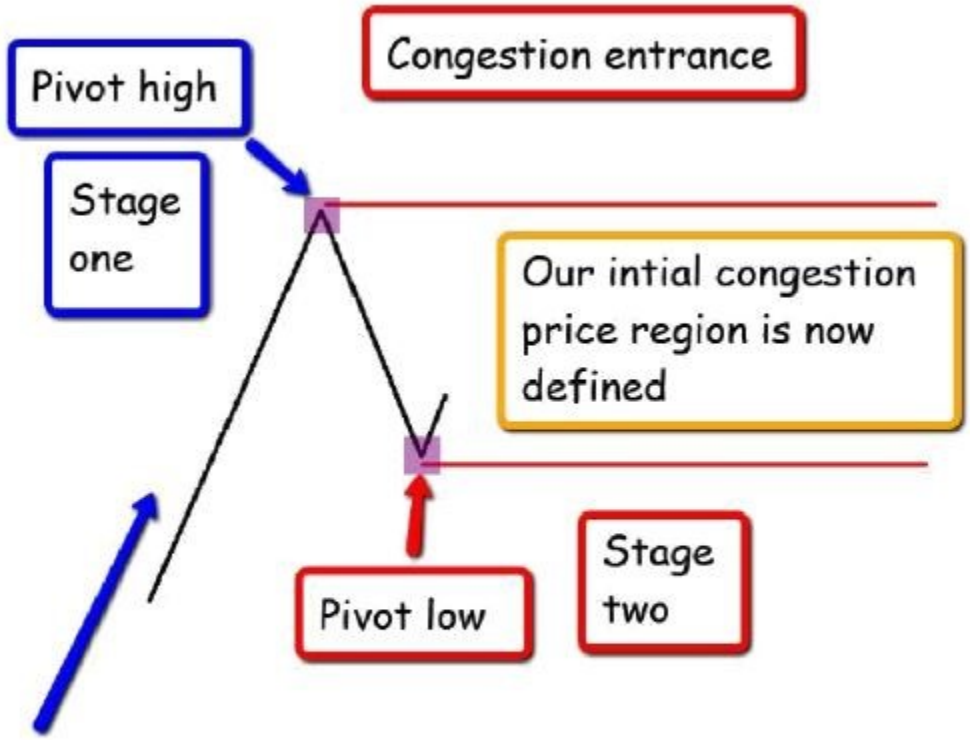


Fig 7.14 Congestion Entrance - Bullish Trend

The same applies when a market has been falling and enters a congestion phase. Here we are looking for the reverse, with an initial pivot low, followed by a pivot high which we can see in Fig 7.15.

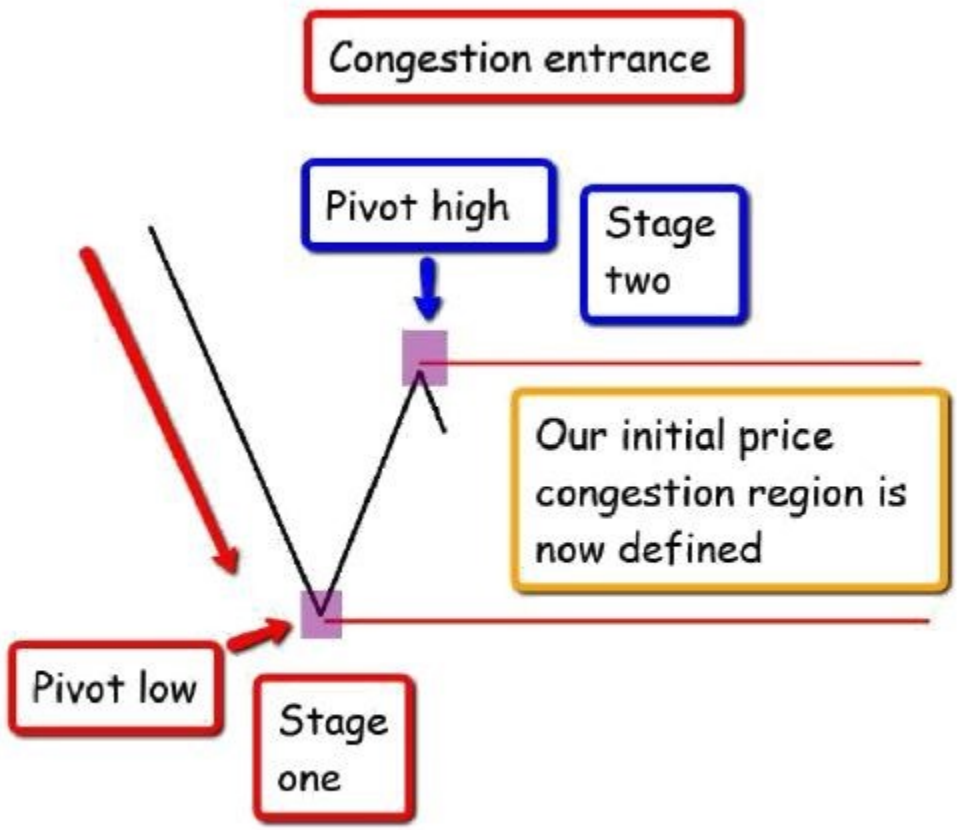


Fig 7.15 Congestion Entrance - Bearish Trend

At this point we now have our ceilings and floors clearly defined, and as the market moves further into congestion, we see further pivot points to the upper and lower price levels, which adds further reinforcement to these areas. What happens next?

At some point of course, the market finally breaks out from these regions, and this is the trigger that we have been waiting for, either to confirm the continuation of a current trend, or to signal a reversal.

However, throughout the price congestion phase we are constantly looking for clues and signals using our VSA knowledge to confirm weakness or strength as the market moves sideways. Moreover, if the congestion phase has been created as a result of a buying or selling climax, then the signals will be very clear.

But, the signal we are constantly watching for now, once we are in a congestion phase, is the volume associated with any breakout and consequent strong move away from this region. As we have already seen, congestion areas, are densely populated areas, with traders locked in a variety of weak positions, and therefore

any break away from these areas requires volume, and generally lots of it. A break out from such a price area on low volume, is a classic trap move by the insiders, and is often referred to as a 'fake out'.

The insiders are trying to trap traders on the wrong side of the market once again, and a break out from recent congestion is another classic strategy. Only VSA traders will be aware of such a false move, since the volume associated with any move higher or lower will be clearly visible. This is why these price regions are so important and they are important for three reasons:

First, if we have a current position in the market, and we see a breakout validated in our direction, then this is a VERY clear signal of a continuation of the move, and therefore gives us confidence to hold the position.

Second, if we do NOT have a current position, then this gives us an excellent entry signal, once the move away has been validated with volume.

Third, if we have an existing position and the trend reverses against us, then we have been given a clear signal to exit.

Finally, once the market has broken away from these regions, we then have clearly defined platforms of future price regions, which then come into play as both support and resistance. These are immensely powerful and helpful in giving us simple targets for managing and exiting positions, based on the price action on our charts. If you remember back to something I wrote earlier; getting in is easy, it's getting out that is always the hardest part, and this is where these areas can help, in providing a visual map of likely places where the market may struggle, reverse or find support. This helps us as traders to manage our positions more effectively.

Let's start with breakouts and volume and what we should expect to see as the market pulls away from these congestion zones.

Fig 7.16 is an ideal schematic of what we should expect to see, and in this case we are seeing a bullish breakout. This could either be a continuation of a recent bullish trend higher, where the market has paused, before moving on once more, or this could be a reversal in trend. It doesn't really matter. The key points are the same, and are these.

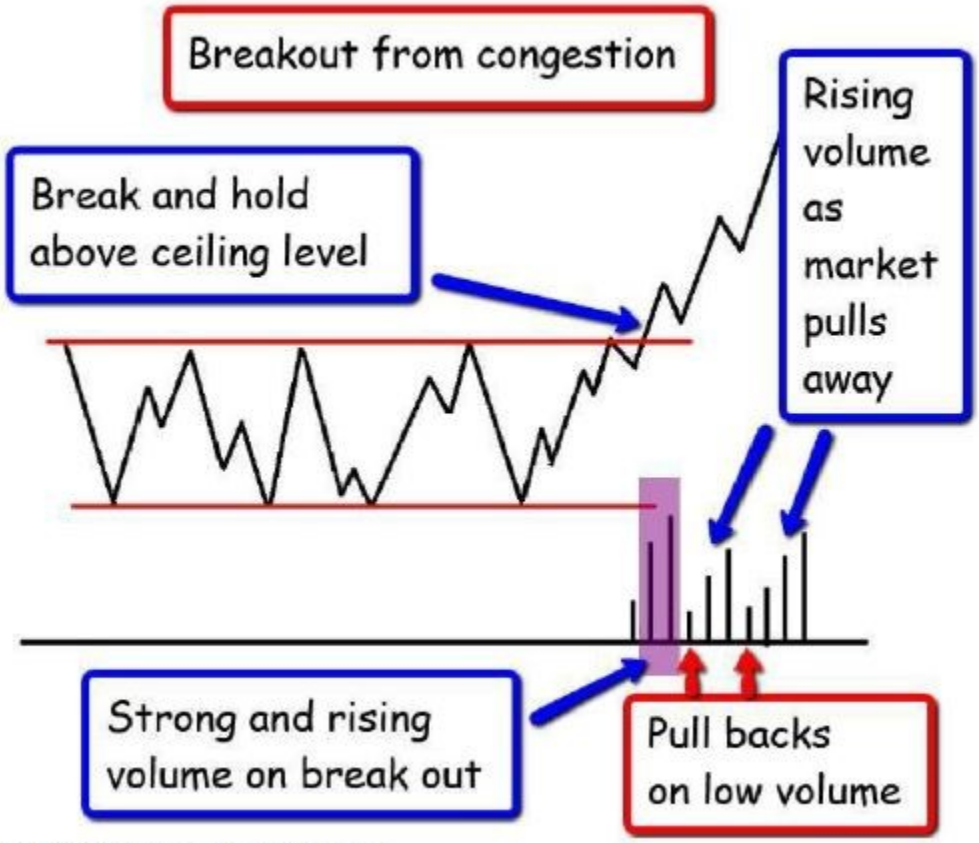


Fig 7.16 Breakout From Congestion : Bullish Trend

First, for any break and hold out of congestion to be valid we need to see 'clear water' above the ceiling of price action. Remember what I said earlier. These lines are NOT rods of steel, they are pliable, rubber bands and we have to treat then as such, so if the market ticks a few points above or below, this is NOT in itself a signal of a breakout. We need to see a clearly defined close above the ceiling. And one question I am always asked is how much is ‘clear water’. Unfortunately, there is no hard and fast rule. It all comes down to judgement, experience, and the market or instrument as each will have its own unique price behaviour and risk profile. But there needs to be a 'clearly visible' gap in terms of the closing price of the candle which finally breaches the ceiling level. This is the first signal that a breakout is in progress. The second is volume.

As we can see in Fig 7.16 the initial move higher up and through the ceiling level, has to be accompanied by strong and rising volume. It takes effort for the market to move away, rather like dragging someone out of quicksand or a bog. The same applies here, and you should see this reflected in the associated volume of the next few bars. If you DON'T see this, then you know it is either a trap up move by the

insiders, or there is simply no interest from market participants to take the market higher at this stage.

If it is a valid move, then the volumes on the initial break will be well above average and rising, as the market finally throws off the shackles and starts to build a trend. At this stage, do not be surprised to see the market pull back to test the ceiling as it moves higher, but this should be accompanied with low or falling volume, since we are now developing a bullish trend higher and expect to see a rising market with rising volume, if this is a true move higher. Once clear, VSA then takes over and we are back to a candle by candle analysis of the price action as the trend unfolds.

Exactly the same principles apply when the breakout is into a bearish trend (See Fig 7.17). Once again, it makes no difference whether this is a continuation of a bearish trend, or a reversal from bullish to bearish. The only difference is that this time we are breaking through the floor of price congestion, and not the ceiling.

As before, this breakout should be clean and well developed, and accompanied by well above average volume to reflect the effort required to break away. Again, do not be surprised to see the market move back higher to test the floor area, but this should be on low volume, and as the market pulls away rising volume should reflect the downwards move. Remember, falling markets should ALSO see rising volume reflecting a genuine move lower.

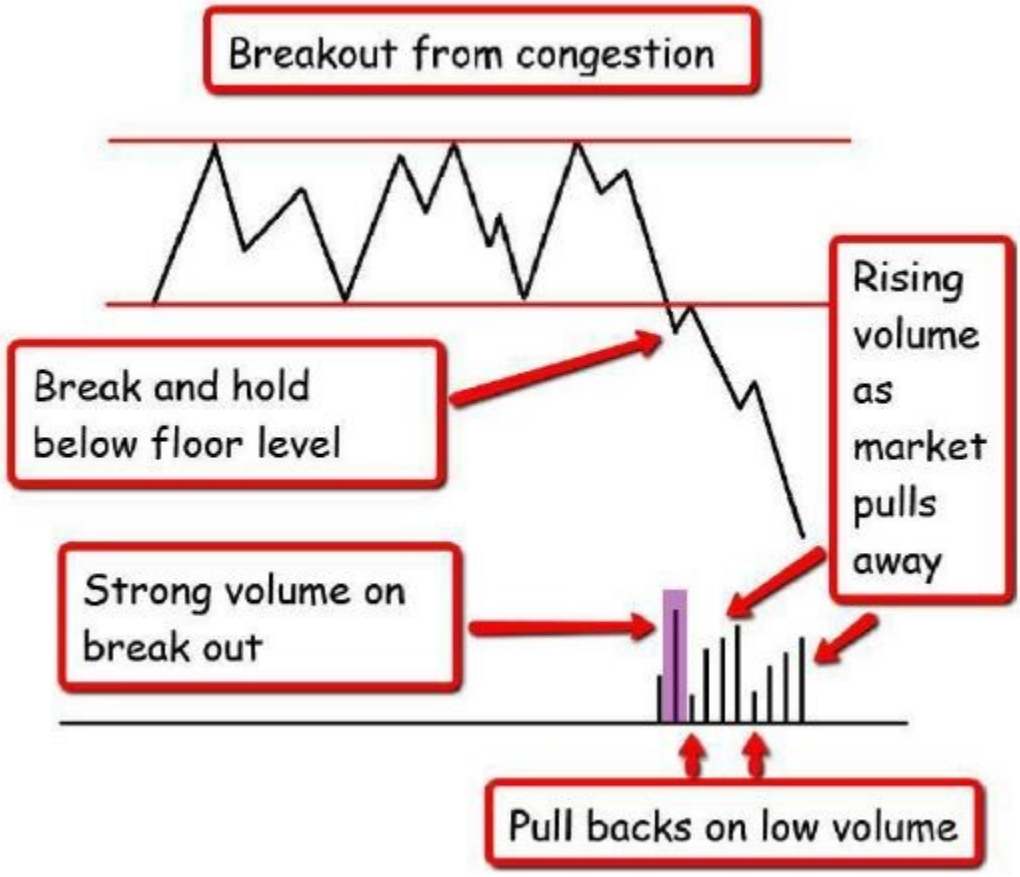


Fig 7.17 Breakout from Congestion: Bearish Trend

I cannot stress too strongly the importance of price congestion regions. They are one of the foundations stones of price action, as they reveal so much, and give us so many trading opportunities. There are many traders around the world who only trade on breakouts, and nothing else.

We can trade breakouts by defining congestion zones using pivots, then charting the price action using VSA, and finally when the breakout is validated by volume, enter any positions.

At this point I cannot reiterate too strongly support and resistance is one of the foundation stones of price analysis. Every full time trader I have ever spoken to, uses this concept in one way or another, and as you will see, now that we understand price congestion, it is a powerful and simple concept which can be applied in several ways.

It can be used to identify entry positions; it can be used in managing positions, and finally it can also be used as a target for closing out positions. In simple terms, it is one of the most powerful techniques you can apply, and when combined with an

understanding of VSA, will give you an insight into market behaviour that few traders ever achieve. It is also the phase of price action where trends are borne. Many traders become frustrated when markets move into a congestion phase, but in reality this is one of the most exciting phases of market behaviour, as it is just a question of being patient and waiting. When the market is ready, it will break out, and a new trend will then be established. And the extent of any trend will be dictated by the cause and effect rule!

To round off this chapter, let me summarise the concept of support and resistance which builds on the knowledge we already have of price congestion, and the analogy I always use here, is that of a house! Which is why I have used the terms floor and ceiling to describe the upper and lower levels of price congestion.

Support and Resistance – The House!

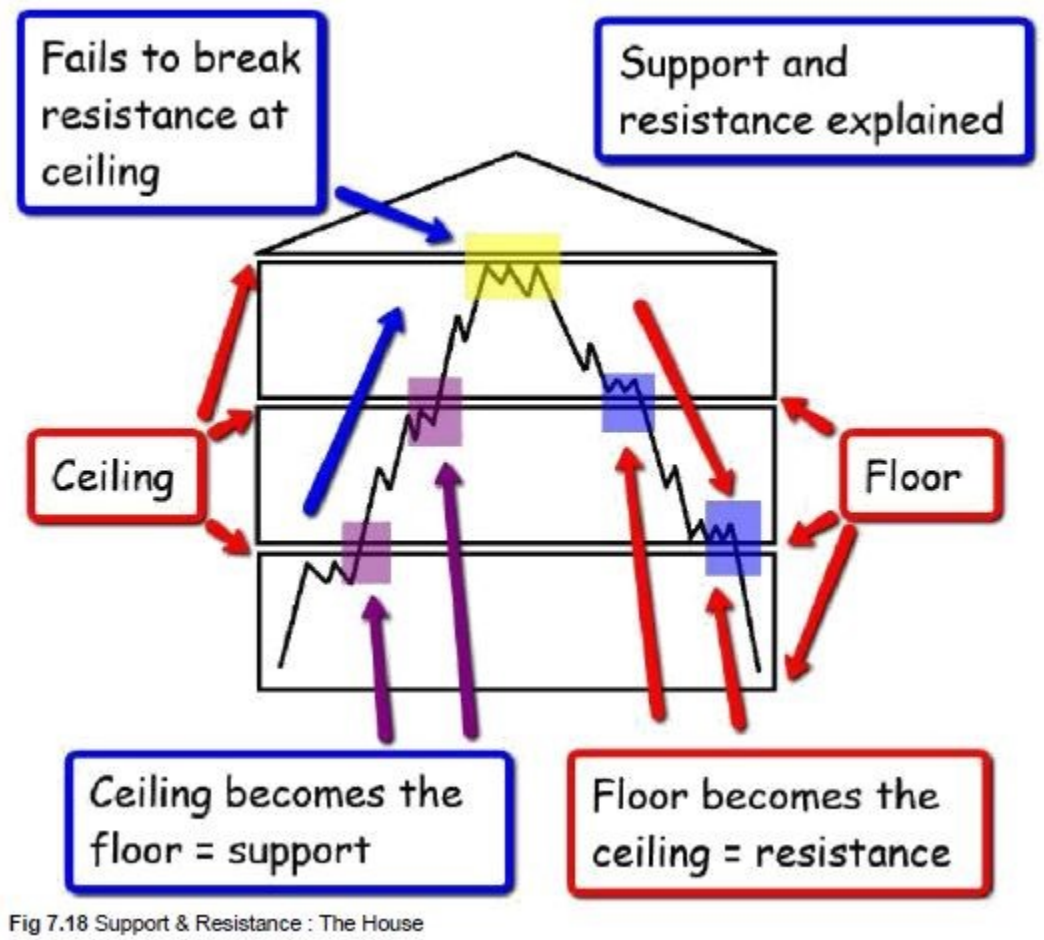


Fig 7.18 Support & Resistance : The House

Imagine that you are looking at a vertical cross section of a house which is shown in the schematic in Fig 7.18. In other words, what we are looking at here is a house with the whole of the front removed, rather like an old fashioned dolls house with the door open. Now you can see all the floors and ceilings in the house, and as you can see here we have a ground floor, first floor, second floor and roof.

The black line is the market which has moved from the ground floor to the roof and back again. Let me explain the price action on the schematic as it moves through the house, to better visualise the concept of support and resistance.

The market moves higher from the ground floor, and eventually reaches the ceiling, where it moves into sideways price congestion. At this point, the ceiling is providing an area of price resistance to any further move higher for the market. However, at some point the ceiling is breached and the market climbs through to the first floor level. Now at this point, what was the ceiling of the ground floor, has now become the floor of the first floor. In other words, what was an area of price resistance, has now become an area of price support.

Once again, the market continues higher until it reaches the ceiling of the first floor, where once again the price moves into a consolidation phase. Finally it breaks out into the second floor level. Now what was price resistance, as represented by the ceiling of the first floor, is now support as represented by the floor of the second floor.

Finally the market continues higher in our house until it reaches the ceiling of the second floor, where the price resistance proves to be too strong, and the market reverses at this level. The ceiling has remained firm and the barrier of price activity has prevented the market continuing any further.

The market then moves lower, having reversed, back to the floor, where it consolidates, before breaking through and back down through the floor and past the ceiling of the first floor level. Here we see the reverse in action. What was price support in terms of the floor, has now become price resistance in terms of the ceiling.

This is repeated once again at the first floor level, before the market finally breaks lower once more, with the floor of price support now becoming price resistance in the ceiling, and we are then back to square one again.

But, why is this concept so important?

The concept of support and resistance is important for a number of reasons. First, as we have already seen, a breakout from a consolidation phase can be validated with volume, and if confirmed, provides excellent trading opportunities. The so called breakout trades.

Second, and perhaps just as important, the reason that this trading approach is so popular is that it embraces in its strategy, the whole concept of support and resistance which is this – that in creating these regions, and using them as part of the trading strategy, you are in effect, using the markets own price behaviour to provide you with protection on your positions. By this I mean that in trading using a breakout, the market has put in place its own natural barriers to protect you against any sudden changes in market direction as the trend develops.

Returning to the price action in our 'house'. As we approach the ceiling of the first floor we move into price congestion, pause, and then break through into the first floor room above. We now have a 'natural floor' of price support in place, which is giving us protection in the event that the market pauses and perhaps moves back to test the price in this area. This floor is our natural protection, defined by the market for us. After all, we know from our VSA studies that to move back and through this area would take effort and volume, so we therefore have a natural area of support now working in our favour. Not only does the floor offer us protection should the market pull back, it also offers the market support to the continued move higher.

It is a WIN/WIN. You have the comfort of knowing that once the market has broken through a ceiling of price resistance, not only does this become a floor of price support, it has also become a barrier of price protection in the event of any short term re-test of this area. Any stop loss for example could then be placed in the lower regions of the price congestion. This is why breakout trading is so popular, and when backed with VSA validation becomes even more powerful.

The same principles apply when markets are moving lower. In our 'house' example we were in an uptrend, but if we take the down trend example, then this works in identical fashion.

Picking up the price action where the market has reversed at the roof level, we are approaching the second floor, floor level. The market moves into congestion and then breaks through the ceiling of the first floor room below. What was the floor of price support has now become the ceiling of price resistance, and once again offers

two things. Price resistance to any short term reversal, adding pressure to any downwards move lower, and secondly, a natural barrier of price protection in the event of any short term pullback.

Once again, it is a WIN/WIN situation for the breakout trader, this time to the short side of the market.

This is using this concept in taking trading positions as the market action develops, but its power also lies in the price action and history that the market leaves behind. The market leaves its own DNA, buried in the charts. These areas of price congestion remain on the charts forever. The price moves on, but these areas remain, and at some point in the future, price behaviour moves back into these regions, and at this stage these areas, often dormant for long periods, then become powerful once again, and begs the question as to whether the market has a memory.

Or is it because, as traders we are all looking at the same charts, and therefore these areas of price become self-fulfilling prophecies? Perhaps it's because these areas are densely populated with weak traders, still holding on and waiting for a reversal so they can exit with small losses or small profits?

It may well be a combination of all of these. Whatever the reasons these areas can and do play a significant role in price behaviour as they are visited by the market repeatedly. Once again, where there are extensive areas of congestion, then the more significant will be their impact.

Let's go back to our house schematic again, and in particular the failure to break the ceiling of resistance on the second floor. The reason for this failure on the price chart, may well have been as a result of sustained areas of old price congestion in the same region, and failures at this level in the past. If the market has failed at this level previously, which as a trader you will see on your price chart with areas of price congestion on the longer time frames, then there is every chance that it will fail at this level again. After all, there was a reason. This could have been a selling climax, occurring years previously and what was once considered overbought at this level is now considered fair value.

Nevertheless, as traders, this is a key level, and volume will give us all the clues we need to validate the subsequent price action. If this is in fact an old area of price congestion, at which level the market failed and reversed previously, then if it does succeed in breaching the ceiling on this occasion, then this adds greater significance to the move higher, and a strong platform of support would then be in

place. Equally a failure would suggest an extremely weak market, and something we will look at when considering key price patterns.

This is the power of support and resistance. It is the market signalling all those areas of price congestion which come into play constantly. They are the DNA of the market. Its history and life story rolled into one, and as you would expect works exactly the same way regardless of whether markets are falling or rising. In this example the market reversed from resistance, but equally powerful is the concept of old support regions when a market is falling. These areas then provide natural platforms of support, to stop any further decline in the market, and just as in a rising market, if these areas are deep and wide, then they take on increased significance, which is further enhanced if there has been any major reversal at this level in the past.

Naturally, price congestion areas come in all shapes and sizes, and in all time frames. A stock index may trade in a narrow range for days or even weeks. A currency pair may move sideways for months. Bonds often trade in very narrow ranges, particularly in the current financial crisis. Stocks may remain waterlogged for months.

Conversely, areas of price congestion may last for a few minutes or a few hours. The underlying concepts remain the same, because as VSA traders all we have to remember is that cause and effect go hand in hand. An area of price congestion on a 5 minute chart will still offer support and resistance to the intraday trader, along with any breakout trading opportunities, but in the context of the longer term will have little effect. However, move to the same instrument on the daily chart, and if we see a deep area of price congestion, then any move through the ceiling or floor will be significant.

This is yet another reason for trading using multiple charts and time frames. Price congestion on a 5 minute chart will have less significance than on a 15 minute, than an hourly chart. In other words the longer the time frame then the greater the significance, all other things being equal.

Support and resistance is a powerful concept in its own right. Match it with VSA, and it will become another of the cornerstones of your trading methodology, based on volume and price.

Dynamic Trends and Trend Lines

In this chapter I want to explore the concept of trends and trend lines. And no doubt you will have heard the oft quoted term 'let the trend be your friend', which in my humble opinion is more or less meaningless mumbo jumbo.

It is the one mantra that people who profess to be mentors and coaches parrot to their students in an effort to impress. However, just like price congestion where, with hindsight any fool can see when the market has been trading sideways, so it is with trends. And anyone who quotes this axiom has clearly little, live trading experience, in my view. Generally they will show you a lovely trend with several lines on, and sagely advise that this was the place to enter and then hold for the duration of the trend, before finally exiting at the end of the trend run higher or lower. All easy stuff when you are considering an historic chart.

Let me start with some basic thoughts on trends, as I want to dispel some of the nonsense that has been written on the subject. And the first, and most important question is this - how do we know when a trend has started?

Just as with support and resistance, the short answer is that we won't, until it's over. It's that simple. It was the same with our congestion phase. We have to have some parameters to give us the clues as to whether a trend is beginning to develop in whatever time frame we are considering. As a trader, it is pointless to look back over an extended period, draw some lines on the chart, and then decide that this is a trend. By then you will have missed most, if not all of the trend, and are probably just getting in, when the insiders are getting out.

This is why VSA is so powerful. It validates the price action for us, and reveals where we are in the longer term trend. After all, if we see a selling climax or a buying climax, then we KNOW that a new trend is about to begin. We are in at the start, which is where we want to be, NOT at the end, which is where trend lines inevitably point to, particularly if you only rely on this technique. I must stress that I am not saying trend lines are not useful, they are, but only when used in the correct way which is what I am going to teach you in this chapter.

Let's start with Charles Dow who really laid down the foundations of trend analysis. His core beliefs in this aspect of price behaviour were founded on one simple principle which was this – that the trend in an index, was far more revealing and valuable than the trend in an individual stock. His view was very simple. An individual stock could be influenced by any number of factors, from earnings reports, broker recommendations, and analysts' views, all of which would affect

the price. An index, on the other hand, was far more representative of the broader sentiment in the market and therefore far more likely to be of use in identifying market trends. One of his many axioms that have since been absorbed into modern day technical analysis is the concept of systematic and unsystematic market risks.

Systematic risks affect all stocks in an index, whilst unsystematic risks may affect only one or a group of stocks in one particular market. Dow's own work centred around the creation of indices, which now form the cornerstones of the financial markets, with the S&P 500, the Dow Jones (DJIA), the Nasdaq (NQ100) and many more around the world. In addition, the concept of an index has been adopted by virtually every other market and instrument and led to the creation of volatility indices, such as the VIX, sector indices for stocks, currency indices such as the Dollar Index (DXY) and commodity indices such as the CRB, with hundreds of others in between. In some markets, indices are now considered more attractive to trade than the underlying assets from which they are derived.

Another of Dow's guiding principles was the concept that trends were classified into three broad time related phases, which he referred to as primary, secondary and minor trends. Now in his world, of course, the ticker tape was still the main source of data, and for Charles Dow and the other iconic traders of his day and later, the time frames were very different to those of today. A minor trend for example would be one lasting for 2 to 3 days, whilst a secondary trend might be 2 to 3 weeks and a primary trend for 2 to 3 months. For our purposes, with electronic charts, our time horizons are much shorter. For intraday traders, a minor trend might last 2 to 3 hours, whilst a secondary trend may last 2 to 3 days and a primary trend 2 to 3 weeks. These are much more realistic and indeed for many markets, the days of extended trends which last for months or longer are almost a thing of the past. The markets have changed beyond all recognition. High frequency trading, market manipulation and the move to electronic trading have all seen to that.

Nevertheless, Dow's original and pioneering work gives us a hook on which to hang our hat. What is also interesting is that in developing his ideas of trend, he also introduced the concept of the three stages of a trend as follows:

1. The accumulation phase
2. The technical trend following stage
3. The distribution stage

If this sounds familiar, then it should because this is the cycle the insiders follow in the constant round of first filling, and then emptying their warehouses, as developed and expanded by Richard Wyckoff. Charles Dow referred to the insiders as the 'smart money' with the distribution phase of the trend where the 'smart money' is taking its profits and heading for the sign marked 'Exit'.

Now at this point we are going to diverge from standard trend analysis and look at it in slightly different terms, which I hope you will find marginally more useful when trading live, rather than the theoretical nonsense that appears in most books. The above introduction has given us the framework to move on, but at this stage most trend analysis would then present you with the schematic in Fig 8.10

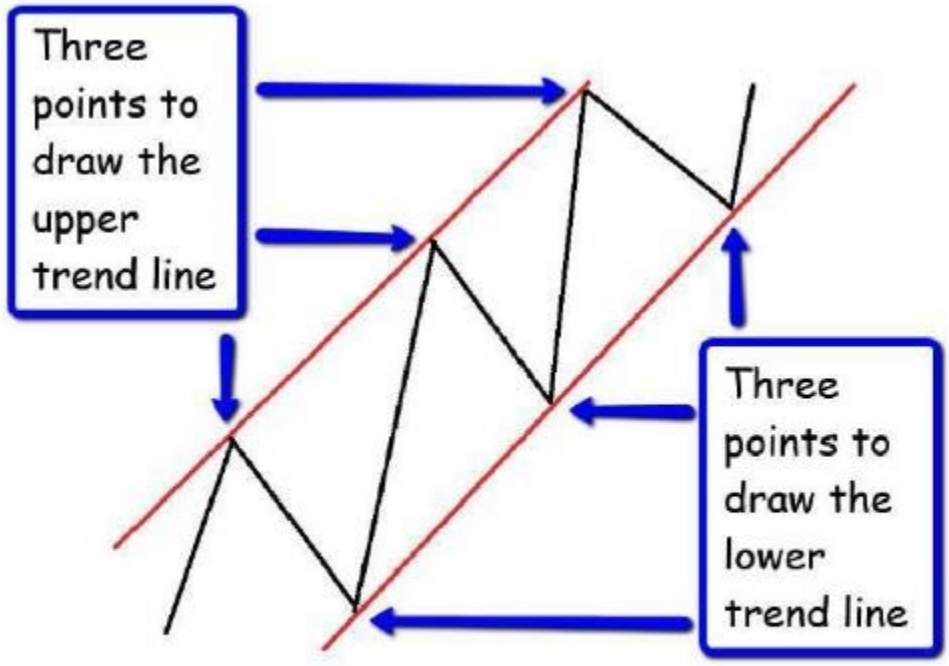


Fig 8.10 A Bullish Trend Higher – Surely Not!

Here we have the traditional picture of a trend. The market has moved higher in a series of steps, and once we have three steps in place, we can draw our upper and lower trend lines, which define the channel clearly. Most text books will tell you that it is impossible to define a trend using two points, since the possibilities for

Interpretation are endless and ultimately meaningless, which is why we have to wait for three points, before joining them up to create the trend lines themselves.

These are the higher highs and higher lows which define the peaks and troughs as the market moves higher, and lower highs and lower lows as the market falls.

Now we have a clear picture that a trend has been established, we are ready to enter the market, and wait for this trend to develop further. That is the theory, but unfortunately, by the time we have waited for our three higher highs and higher lows, the trend is already reaching a climax. We have already been through the technical trend following stage and we are about to buy, at the start of a distribution phase.

But how do we know this? Because most likely you have been reading too many text books written by people who have never traded or invested in their lives. This is all theoretical and, as I said earlier, very easy to see in hindsight, and once the trend is this well developed, it is not of much use.

What is the answer? And for this we need to return to support and resistance which holds the key, and which is why I covered it in such detail in the previous chapter.

Support and resistance is where trends are created, born and then propelled on their way. This is where trends reverse and change direction. This is where accumulation and distribution phases occur, along with selling and buying climaxes. It is the most important area of price behaviour on any chart. These areas are like the spawning grounds at the head of a great river, to which the salmon ultimately return to spawn.

This is where we start to answer the question that ALL traders, investors and speculators have at the forefront of their minds at all times. Is this the start of a trend, and if so, what is the strength of the trend and how far is it likely to run? These questions can only be answered by understanding support and resistance in the context of Volume Price Analysis.

To attempt to do so in any other way is doomed to failure, and drawing a few lines on a chart, is a pointless and meaningless exercise. In my humble opinion. I do accept they may help to clarify the trend a little and may even be of limited use once the trend has started, but in terms of getting you into a strong position, they are of no value whatsoever.

However, let's return to basics and revisit our congestion phase, where the market is moving sideways and creating the floors and ceilings of price support. The market is preparing to breakout, and all we need to do as traders, investors or speculators is to wait, be patient and then to validate the breakout using volume. How do we know the extent of the trend at this stage? The short answer is we

don't, but we do have several clues which will allow us to make an educated guess at this stage.

First, is the extent of the price congestion phase? Again we must recall Wyckoff's cause and effect as this will dictate whether we can expect to see a primary, a secondary trend or a minor trend develop. For an intraday scalper, the trend will almost certainly be a minor trend, but this may well sit within the context of a longer term trend in a slower time frame. In this context our scalper would then be trading, with the dominant trend in a higher time frame. In other words the minor trend being traded, is in the same direction as the longer term trend, which for an intraday trader may be the hourly chart.

This is one of the many reasons why trading using multiple charts is so powerful. It helps to frame the trend that we are trading. However, there is nothing wrong with taking a trade against the dominant trend in whatever time frame that may be. For example, the dominant trend in a stock market may be bullish on the index, but there may be a bearish opportunity in a stock. This is fine, as long as we recognise that we are trading against the 'dominant trend'. This type of trading is often referred to as 'counter trend trading', and there are two points that define this type of position.

First, it is a higher risk position as we are trading 'against the market flow' – swimming against the tide if you like. Second, and following on from the first point, we are only likely to be holding such a position for a short period of time, since by definition we are trading against the longer term dominant trend.

Next, in any congestion phase as VSA traders we are always analysing the volume from two standpoints. First the volume associated with the sideways price action to determine whether this is a major reversal evidenced by volume, as either a selling or a buying climax. Secondly, the volume and price action following any associated breakout, which will then provide us with additional clues as to the likely extent of the trend. In turn this will also be validated by considering the associated volume and price action on slower time frames along with analysing potential support and resistance areas ahead, which might create pause points in any longer term trend,

Therefore, the first step is always the price action, immediately following a move away from the price congestion zone, and this is very similar to the way we identified our congestion entrance using the pivot high and the pivot low, to give us our levels. This gave us our bearings. The previous price action (whatever it may have been) has now paused and is taking a rest. Our pivots have alerted us to

this pause, which may be an extended one, in which case the levels will be further reinforced with further pivots to the upper and lower levels, or it may be a temporary one, with few pivot points. It may be a reversal, in which case we can expect to see some extensive VSA action, or a continuation of the previous trend. All this will be revealed as the price action in this area unfolds into our traditional congestion area, with our ceilings and floors in place. However, at some point, the market will break away, and this is where the pivots come into play once again, only this time to help us define the trend as it develops. Furthermore, it allows us to take advantage as soon as possible and NOT have to wait for the higher highs and higher lows (or lower highs and lower lows) to develop before entering a position.

Let's take an example which shows a break out to the up side in Fig 8.11

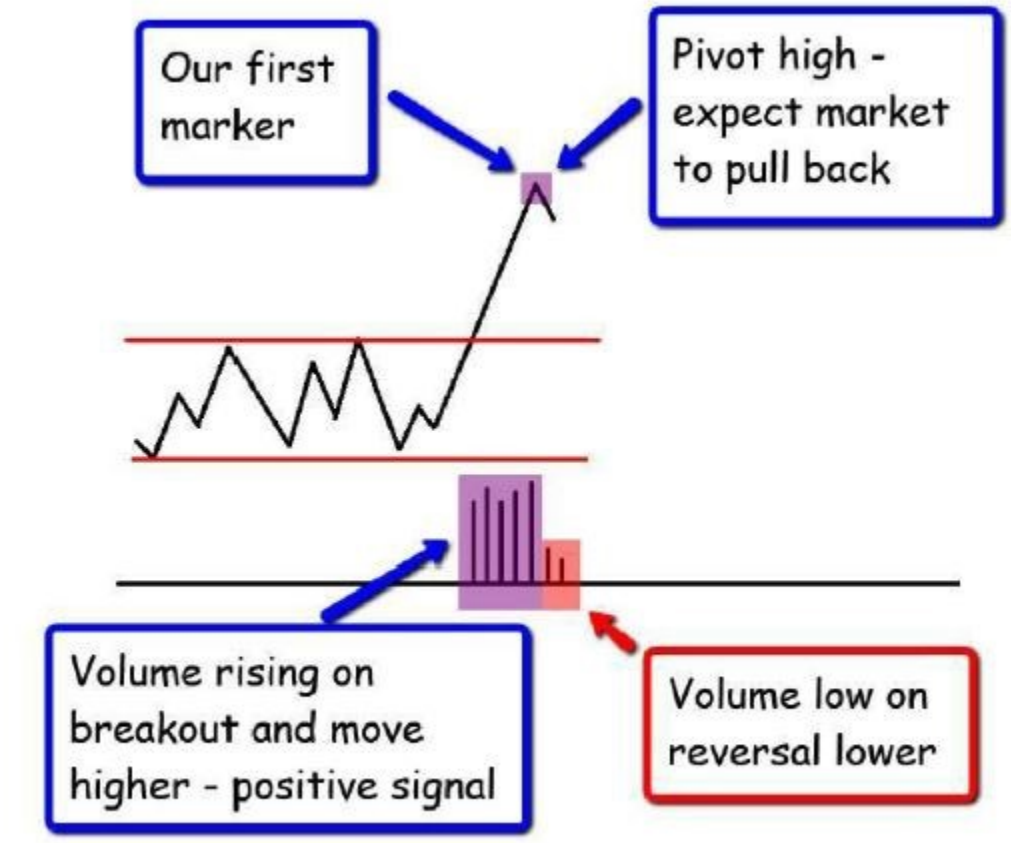


Fig 8.11 First Marker – Pivot High

As we can see in Fig 8.11 the market has been in a consolidation phase and has broken out on robust volume. Our analysis signals that this is a valid move, and we are now looking for signs that a trend is likely to develop. The first signal we have

is of a market that is rising on solid and generally rising volumes, and we take a position.

What we are waiting for now is our first marker, which just as in the case of our congestion entrance in the Previous chapter, is a pivot, and as we are in a bullish phase we are looking for a pivot high.

As we know markets never go up or down in straight lines and this is the first sign of a reversal, which in turn may also define the upper region of our trend as we break away. Remember the pivot high and the pivot low are combinations of three candles as shown below in Fig 8.12

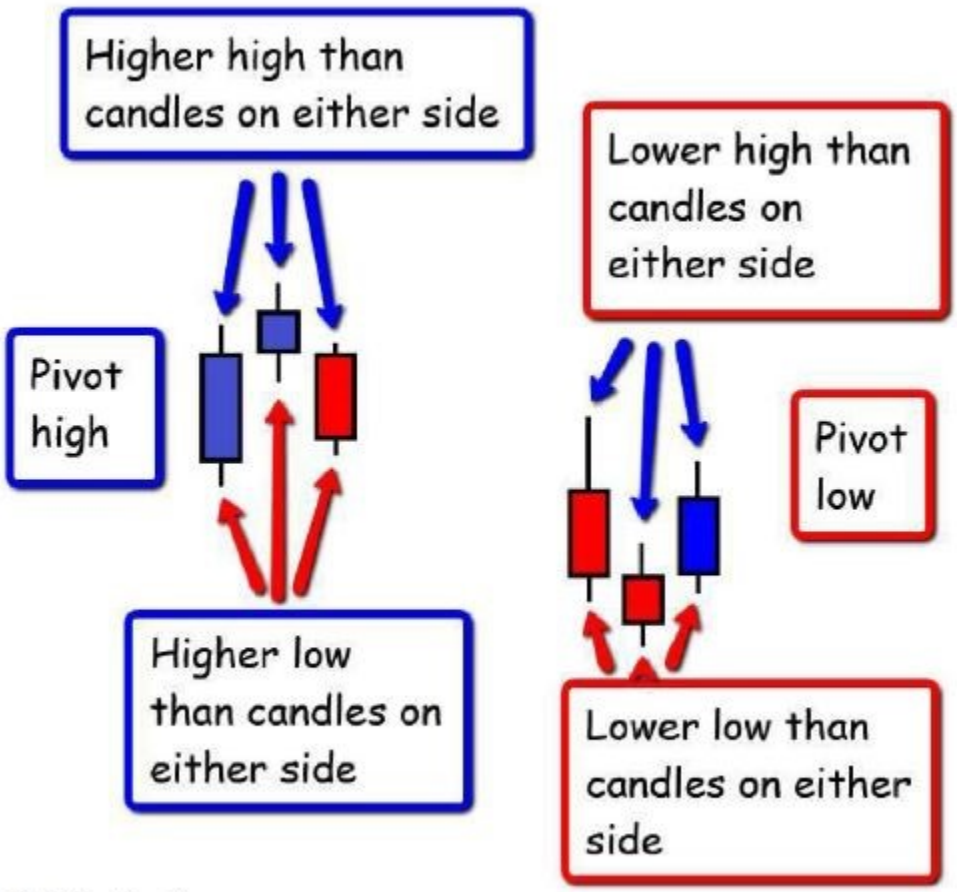


Fig 8.12 Pivot Creation

We now have our first point of reference in the price move higher, and since we have a pivot high, we know that the market is going to reverse lower. This could be a major reversal, which is unlikely given the volume profile and the recent price congestion, but at this stage we are never sure and must be patient. The volume is falling, which a good sign, and in due course, the market stops, and reverses

higher, posting a pivot low. We now have the second marker in our journey higher, as we can see in Fig 8.13.

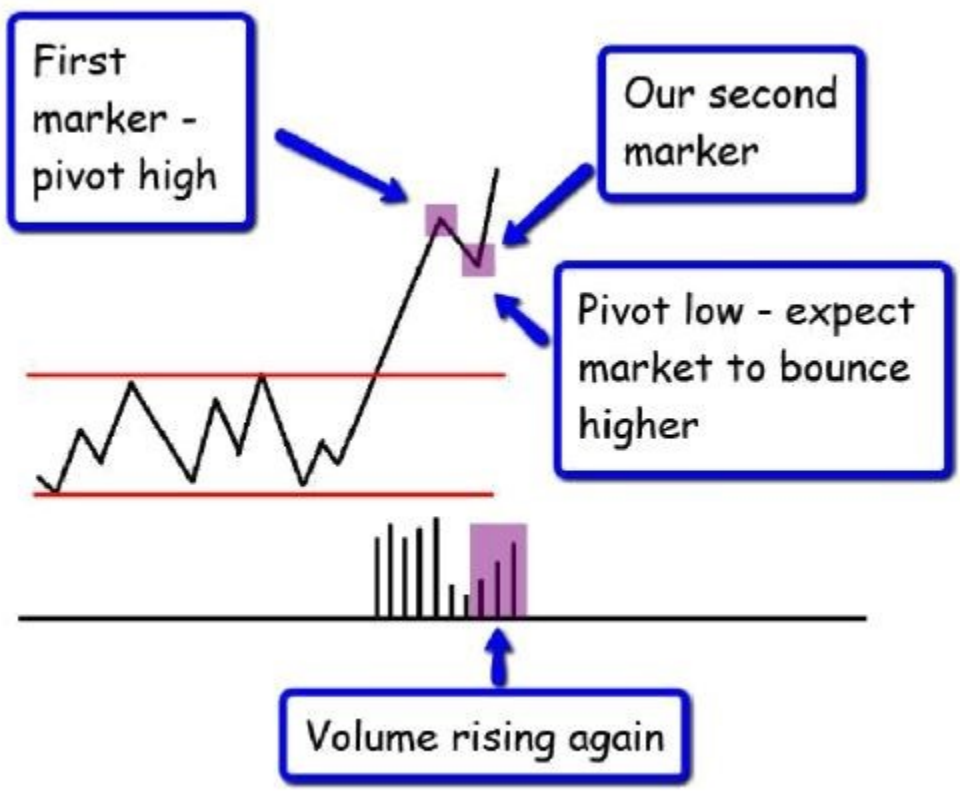


Fig 8.13 Second Marker – Pivot Low

Fig 8.13 Second Marker – Pivot Low

Now we are starting to build a picture of the price action. Remember we have a position in the market, and provided volume continues to confirm price, then all is well with the move higher.

The pivot points which are now forming, are our markers to highlight the journey and define the boundaries of the trend. Unlike the trend lines which most people draw AFTER the event, these are dynamic and created during the price action, and provided they build in a series of higher and lower levels, then we know that the trend is developing and we stay in our position, provided the volume supports our analysis.

Let me scroll forward now and add two more levels to the chart, and based on exactly the same principle. From our current position, we are now looking for the market to push higher, off the pivot low, and the next target for us is a second pivot high, and PROVIDED this is above the previous pivot high, then we are in an

upwards trend. Once this second pivot high has formed we are then expecting the market to pullback, but hopefully only in a minor way at this stage, and on low volume, at which point we are now looking for our second pivot low.

This is duly posted, and provided it is higher than the previous pivot low, we stay in our position, as we are now expecting the market to push off this pivot low and develop the trend further.

The market continues higher as expected, and now we are looking for our third pivot high, higher than the previous one, which will then define the upper region of our trend. If this is posted as expected then once again, and I'm sure you are getting the picture now, the market pulls back off this pivot high and moves lower, to post, another isolated pivot low. If this is higher than the previous pivot low, then we continue to hold and now have our third pivot low to define the lower region of the trend.

This is how we build trend lines dynamically, whilst simultaneously holding a position in the market based on Volume Price Analysis and the fundamental principles of VSA breakouts from sideways congestion, as we can see in Fig 8.14. Whilst the end result is the same, the journey in creating these trend lines is very different and allows you, as a trader to join the trend at the best point, which is the start, and not the end!! This is shown in Fig 8.14 below.

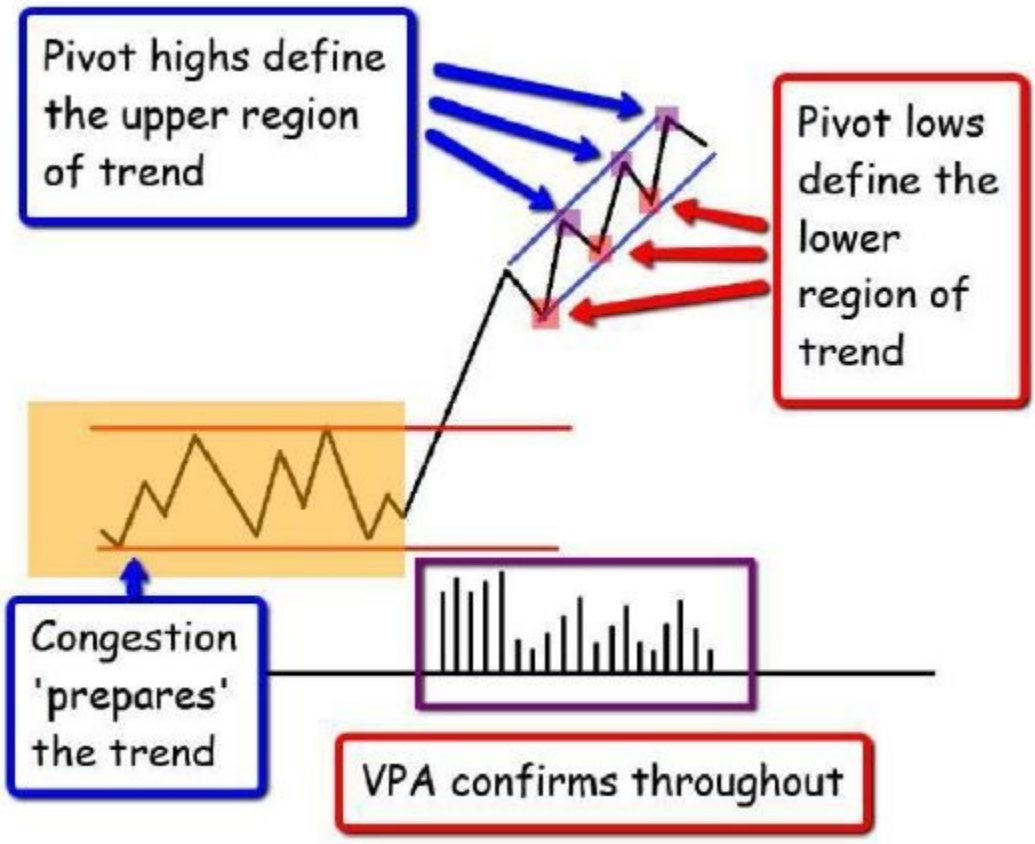


Fig 8.14 Dynamic Trend Lines – Bullish Trend

We can imagine this whole process almost as one of 'scene setting'. The congestion phase sets the scene for the price action, which is then delivered and supported by the volume. The pivots highlight the journey – they are like the lights at the side of the road, giving us a clear view of where we are, whilst also giving us the confidence to hold our position in the market.

Finally, at some point, we see a pivot high posted that is lower or perhaps at the same level as a previous pivot, and it is at this point that we are looking at a market that is perhaps moving into a secondary congestion phase, with a pivot low to follow. If this is at a similar level to a previous pivot low then we are in a second congestion phase and our analysis continues. Now we are looking for confirming signals with further pivots and finally a break out. Again, is this a trend reversal, or merely a trend pause? If we break to the downside then it is a trend reversal, and we exit our position, but if it is a trend pause, and the trend continues on a break higher, then we hold our position, and start the process of building our dynamic trend lines once again.

Naturally, the above is a text book example of what we want to see on every breakout from a congestion phase, but trading life is rarely text book. Sometimes these pivots do not appear. For example on a break higher, the pivot high may not appear, but the pivot low may do so in due course.

At this point we have to make a decision based on our VSA analysis, and judge whether the trend is developing as expected. However, this may be the first early warning signal that this is not a trend which has any sustained momentum. In general, we would expect to see the move away from congestion as having some momentum, supported by volume. As markets move quickly, so buyers and sellers move equally quickly, either to get in, or to get out creating the pivot points on the chart.

If these are missing, for whatever reason, then this alone suggests a market which is potentially lacking in momentum which will always be evident from our volume analysis. If the market is moving higher, but the volume is average or below average then this is a trend lacking momentum. Buyers and sellers are simply not participating in the move higher, and the trend will therefore simply not develop. There is no energy, no activity, and this is reflected in the volume and associated price action.

Therefore, don't expect to see the perfect scenario on each breakout. Everyone will be different, characterised by varying degrees of momentum and duration. What we have to do is to look for the clues using VSA, and then wait for the pivots to appear as the price action unfolds. If they do not follow a logical pattern in the trend, then the market is potentially weak, and may simply revert back into a period of congestion at a slightly higher level.

The price action and associated pivots for a move lower away from a congestion phase are created in just the same way, but this time we are looking for a pivot low to form initially, followed by a pivot high, as we can see in Fig 8.15.

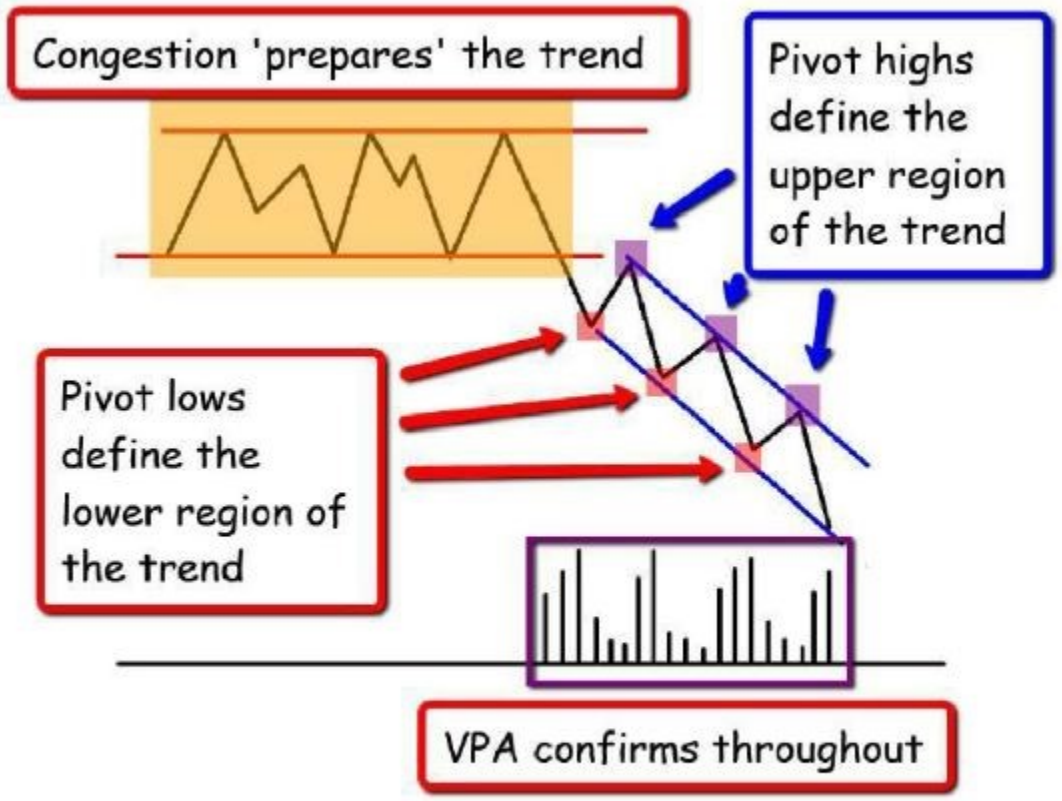


Fig 8.15 Dynamic Trend Lines – Bearish Trend

In summary, and to put all of this into context. There is nothing wrong with drawing what I call 'static' trend lines on a price chart, and in many ways this is what we have done here. The difference however, is that the trend lines in this chapter have been created by the dynamic price action of the market. Obviously this is hard to present in a book, and is best seen live in action as the market unfolds. Nevertheless, what I have tried to describe here is the process of analysis and price action which describes where we are in our trading journey, or perhaps more importantly where the market is in its trading journey.

The pivots are formed dynamically, and as they are created, so the trend is built which we can then define using these points as our 'way points' on the journey. Nothing is ever perfect, but at least using VSA, and your understanding of the importance of price congestion, should put you into a strong position, allowing you to identify a trend BEFORE it starts, and not after. This is what I have tried to explain in the last two chapters, and I hope that in reading them you will at least have a better understanding of how markets behave and the importance of price congestion.

As I have said before, many traders become frustrated when markets move into a congestion phase, which I find hard to understand. This is where the market is preparing the next trend. These areas are the breeding grounds for trends, and in many ways far more important than any existing trend, since this is a new trend, from which we can take advantage, early. It really is that simple. It may be a selling climax or a buying climax, it may be a pause in a longer term trend. Whatever the reason, and whatever the timeframe, you can be sure of one thing. The market is preparing for a move away from this region, it is just building up strength and preparing to breakout, one way or the other. All we have to do is be patient, wait, and then apply VSA to the consequent price action, coupled with our pivots which highlight the journey.

Interpretation of Volume Spread Analysis with respect to Dow Theory

Dow Theory can be interpreted with VSA Analysis. This is the core requirement of VSA methodology. We will walk through various illustrations to understand how VSA and Dow Theory works together.



The illustration given above shows uptrend marked with the source swing point low which is then followed by series of Higher Lows Swing Points. The price then creates the first Lower Low after the series of Higher Lows. For a trend to shift from uptrend to downtrend we need to observer the breakout of Lower Low Swing Point Level. We observed the breakout of Lower Low Swing Point Level at candle A which was on lower spreads and low volume as compared to previous candle. This shows that the breakout is not a breakout. We then observed the bullish candle followed after the unhealthy breakout candle which shows buyers are still dominating the market and hence price moved upwards.



The illustration given above shows a minor uptrend starting from source Swing Point Low which is then followed by series of Higher Lows Swing Points. After sometime we observed first Lower Low Swing Point. In order for a trend to shift from uptrend to downtrend, we need to observe the breakout of the lower low swing point level. We observed the breakout of the lower low swing point level at candle A. This breakout candle A was on high spreads and high volume. This breakout candle was also not on extremely ultra-high volume which shows that this candle did not mark the SOS in the form of effortless selling climax. These criteria suggests that this breakout candle A was true breakout of Lower Low Swing Point Level and hence resulted in huge bearish move as shown in the illustration below.





The illustration given above shows a minor uptrend marked by the source Swing Point Low which was then followed by the series of Higher Lows Swing Points. The first Lower Low Swing Point after series of Higher Lows Swing Points was observed some time later. In order for an uptrend to shift to the downtrend, we need to observe the breakout of Lower Low Swing Point Level. At candle A, we observed the breakout of Lower Low Swing Point Level. The breakout candle was

on high spreads and high volume as compared to the previous candle. The breakout was also not a SOS in the form of effortless selling climax as it did not have ultra-high volume. So this breakout candle was a true breakout candle which resulted in significant down move.



The illustration shown above shows the uptrend marked by source Swing Point Low which was then followed by the series higher lows swing points. Our first Lower Low Swing Point was observed sometimes later. In order for an uptrend to shit to down trend, we need to observe the breakout of the Lower Low Swing Point Level. The breakout candle A was not on high spreads and high volume as compared to the previous candle. Hence it was not a genuine breakout. Sometimes later we observed the huge bullish candle on high volume which resumes the uptrend and created a new source swing point low. After this new source swing point low, price continued to make higher highs swing points. Then finally we saw Lower Low swing point again after the series of higher highs swing points. In order for an uptrend to shift to downtrend, we need to observe the breakout of the Lower Low Swing point Level. We observed the breakout at candle B which has high spreads and high volume as compared to the previous candle but the volume was not significantly higher than the previous cluster of candles formed before the breakout candle so it cannot be called as a genuine breakout. Hence, after the bullish momentum candle after the breakout, uptrend resumes.



In the illustration given above, the price was in minor uptrend marked by Source Swing Point Low which was followed by Higher Low Swing Point and then we observed the first Lower Low Swing Point which did not have any follow through so the uptrend resumes. We say series of higher lows swing points then. At candle Y, we saw SOW in the form of buying climax which was then retested with No Demand candle observed at candle Y. This shows weakening in the market. We saw the New Lower Low Swing Point sometimes later. In order for an uptrend to shift to downtrend, we need to observe the breakout of the lower low swing point level. The breakout cluster attempts observed at A were extremely low on volume and so these are not the genuine breakouts. We observed SOW formed sometimes later which was then followed by SOS marking the price to go into consolidation phase. The breakout of the support of the consolidation was observed at candle B which was on high spreads and low volume as compared to previous candles. This shows the breakout was fake breakout and so now we will look for SOS Spring in order to go long. We observed SOS Spring at candle C which was effortless selling climax. We can go long here.

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Conclusive Remarks

Although, VSA is a very powerful technique which unfolds the true sentiments and order flow of the market, it should not be considered as Holy Grail. Nothing in trading is Holy Grail because trading after all is the game of probabilities. Your job as a professional consistently profitable trader is to trade high probability setups with skewed Risk Reward Ratio of 1:2 or above. Typically, VSA will generate a win rate of 70% on average. There will be some days when VSA will generate win rate above 70% and there will be days where VSA will generate win rate lower than 70%. According to my experience with VSA, a bad day typically has a win rate of 60% and a good day typically has a win rate of 80%. You should always understand your risk parameters and investment objectives before trading with VSA and should always avoid over leveraging your trades. Always position size your trades correctly.

You do not have to fully transit to VSA if you have your own trading system. Stick to your system and use VSA as a confirmation tool. For example, you have been trading Price Action or Harmonics or Chart Patterns or Elliot Waves for an extended period of time, do not transit to VSA completely rather just apply VSA as confirmation tool to improve your win rate and trade expectancy. Do not fall into a trap of over confidence and Grail discovery even when VSA generates you high win rate. Always trade with correct position sizing and stop loss. By putting stop loss you divorce yourself from emotions and admit the fact that you can be wrong. Before even executing a trade, you should place a stop loss and never expect so much from a single trade. You cannot create consistency in trading by looking each trading day or a single trade in isolation but by looking trading days or trades collectively. If you think that VSA is the Holy Grail that you have finally found then take my advice: "Quit Trading and Do Something Else in Life". Trading is not the only way to make fortune. There are so many other ways and trading is the hardest among all. Stop dreaming overnight fortune and accept the reality of trading and then keep on improving yourself as a trader.

Lastly, I have set myself for abundant success in trading by putting in a lot of work. So do not think that you can imitate my methodology and become immensely successful trader in fairly short amount of time without putting in dedicated work and efforts. You need to put efforts in your trading process which will then make your trading effortless.

I hope, you have loved this book so far and I place high confidence that this book will significantly improve your trading.

Yours sincerely,
Muhammad Uneeb.

According to my thorough review, this book is highly accurate.

Please ignore the minor spelling errors and grammatical slips!