Business
- Advertising
- Branding
- Business Management
- Business Ethics
- Careers, Jobs & Employment
- Customer Service
- Marketing
- Networking
- Network Marketing
- Pay-Per-Click Advertising
- Presentation
- Public Relations
- Sales
- Sales Management
- Sales Telemarketing
- Sales Training
- Small Business
- Strategic Planning
- Entrepreneur
- Negotiation Tips
- Team Building
- Top Quick Tips

Internet & Businesses Online
- Affiliate Revenue
- Blogging, RSS & Feeds
- Domain Name
- E-Book
- E-commerce
- Email Marketing
- Ezine Marketing
- Ezine Publishing
- Forums & Boards
- Internet Marketing
- Online Auction
- Search Engine Optimization (SEO)
- Spam Blocking
- Streaming Audio & Online Music
- Traffic Building
- Video Streaming
- Web Design
- Web Development
- Web Hosting
- Web Site Promotion

Finance
- Credit
- Currency Trading
- Debt Consolidation
- Debt Relief
- Loan
- Insurance
- Investing
- Mortgage Refinance
- Personal Finance
- Real Estate
- Taxes
- Stocks & Mutual Fund
- Structured Settlements
- Leases & Leasing
- Wealth Building

Communications
- Broadband Internet
- Mobile & Cell Phone
- VOIP
- Video Conferencing
- Satellite TV

Reference & Education
- Book Reviews
- College & University
- Psychology
- Science Articles

Food & Drinks
- Coffee
- Cooking Tips
- Recipes & Food and Drink
- Wine & Spirits

Home & Family
- Crafts & Hobbies
- Elder Care
- Holiday
- Home Improvement
- Home Security
- Interior Design & Decorating
- Landscaping & Gardening
- Babies & Toddler
- Pets
- Parenting
- Pregnancy

News & Society
- Dating
- Divorce
- Marriage & Wedding
- Political
- Relationships
- Religion

Computers & Technology
- Computer Hardware
- Data Recovery & Computer Backup
- Game
- Internet Security
- Personal Technology
- Software

Arts & Entertainment
- Casino & Gambling
- Humanities
- Humor & Entertainment
- Language
- Music & MP3
- Philosophy
- Photography
- Poetry

Shopping & Product Reviews
- Book Reviews
- Fashion & Style

Health & Fitness
- Acne
- Aerobics & Cardio
- Alternative Medicine
- Beauty Tips
- Depression
- Diabetes
- Exercise & Fitness
- Fitness Equipment
- Hair Loss
- Medicine
- Meditation
- Muscle Building & Bodybuilding
- Nutrition
- Nutritional Supplements
- Weight Loss
- Yoga

Recreation and Sport
- Fishing
- Golf
- Martial Arts
- Motorcycle

Self Improvement & Motivation
- Attraction
- Coaching
- Creativity
- Dealing with Grief & Loss
- Finding Happiness
- Get Organized - Organization
- Leadership
- Motivation
- Inspirational
- Positive Attitude Tips
- Goal Setting
- Innovation
- Spirituality
- Stress Management
- Success
- Time Management

Writing & Speaking
- Article Writing
- Book Marketing
- Copywriting
- Public Speaking
- Writing

Travel & Leisure
- Aviation & Flying
- Cruising & Sailing
- Outdoors
- Vacation Rental

Cancer
- Breast Cancer
- Mesothelioma & Asbestos Cancer

Contents

Introduction

Over the last 9 years we have put in thousands of hours of research and development to refine our trading methods. Our trading methods have been tried and are functioning successfully. They work for us but we cannot guarantee they will work for you. There are many trading systems available in the market, most of them are mechanical and are based only on a combination of indicators, and although they make money for traders, the number of successful trades varies between 35 and 75 percent. By understanding the market sentiment and by using chart and candlestick patterns, losses can be minimized. What we attempt to do in this book is to take trading methodologies to a higher level by using a combination of chart and candlestick patterns with technical indicators. There is no single strategy that works successfully every time. You need to use the strategy appropriate for the market conditions. The majority of the technical indicators tell traders what has happened and are considered lagging indicators while chart and candlestick patterns predict what will happen in the immediate future and can be considered as leading indicators.

Trading is approximately 20% technical and 80% psychological. With the psychological side of trading, it is important that you understand the sentiment of the market and have good money management skills. To teach this would take hundreds of hours, this can only be successfully gained by hard work on your part.

The main aim of this ebook is to go through the basics of forex trading and to share with you our trading experience and knowledge in the hope that you can use it for your own success. We cover the "Big Picture" and go through the building blocks, finally putting it all together.

In this ebook we focus mainly on the use of candlesticks as the trend is towards the use of candlesticks over the use of conventional bars. More and more chartists are moving over to using candlestick charts as they are easier to read and candlesticks in combinations provide critical information on what the market is going to do. When the traditional candlestick patterns are combined with Western analysis, they add an extra dimension to conventional chart analysis.

Chapter 1

What is Forex Trading?

Forex or Foreign Exchange is the simultaneous buying of one currency and the selling of another. Currencies are traded in pairs.

The Forex Market has more buyers and sellers and daily volume than any other market in the world and takes place in major financial institutions across the globe. The forex market is open 24 hours a day five days a week

Buying/Selling

In the forex market, currencies are always priced in pairs and all trades result in the simultaneous buying of one currency and the selling of another. The objective of currency trading is to buy the currency that increases in value relative to the one you sold. If you have bought a currency and the price appreciates in value, then you must sell the currency back in order to lock in the profit.

Quoting Conventions

Currencies are quoted in pairs. The first listed currency is known as the base currency and the second is called the counter or quote currency.

Currencies are quoted using five significant numbers, with the last placeholder called a point or a pip

For example a EUR/USD quote 1.1345/1.1350

Like all financial products, forex quotes include a "bid" and "ask" or a “sell” and a “buy” price.
By quoting both the bid and ask in real time, brokers ensure that traders always receive a fair price on all transactions. As in any traded instrument, there is an immediate cost in establishing a position. This cost will vary between the different brokers and is sometimes called “spread”.

For example, USD/JPY may bid at 131.40 and ask at 131.45, this five-pip spread defines the trader’s cost, which can be recovered with a favourable currency move in the market.

Margin

The margin is a performance bond, or good faith deposit, to ensure against the total loss of your account. Trade stations have margin management capabilities. In the event that funds in the account fall below margin requirements, the broker's dealing desk will close all open positions. This prevents clients' accounts from falling into a negative balance, even in a highly volatile, fast moving market.

The new NFA rule requires a minimum 1% margin at all time to maintain an open trade. (Note this may change from time to time so although we use 1% as the example at some stage in the future the margin maybe different. However using similar calculations one can easily calculate the new margins)
Some deal stations automatically calculate this according to the formula and hence the margin requirements are continually varying.

Based on a 1% margin requirement

Example 1: GBP/USD

rate:	1.7442/1.7447
account type:	100 000/lot account
1% leverage:	100 000x0.01 (1%) =1000units

When you are long (buy) GBP/USD, the margin required is:

1.7447 (GBP/USD) x1000 (units of base currency GBP) = USD1744 for each lot.
Some brokers require $1,800 margin for GBP pairs.

Example 2: EUR/USD

rate:	1.2326/1.2331
account type:	100 000/lot account
1% leverage:	100 000x0.01 (1%) =1000units

When you are long (buy) EUR/USD, the margin required is:

1.2331 (EUR/USD) x1000 (units of base currency EUR) = USD1233 for each lot.

Some brokers require $1,300 per lot in margin for EUR based pairs. In general, a margin of $1,300 allows you to control a $100,000 spot currency position. This is an efficient use of trading capital as the leverage in futures and stock markets is much less.

Example 3: Where the USD is the BASE currency, the margin requirement is USD1000 (ie 1% of 100 000)

When you are long (buy) USD/CAD, USD/CHF etc the margin required is: = USD1000 for each lot.

Forex Market and Locations

The forex market is a seamless 24 hour market and is open 5 days a week.
At 5 pm Sunday, New York time, trading begins as markets open in Sydney and Singapore.
At 7 pm the Tokyo market opens, followed by London at 2 am,
and finally New York at 8 am. (Time is based on New York time)

As a trader, this allows you to react to favourable/unfavourable news by trading immediately.

The trading of forex takes place all over the world and is not located in any one central location.
Deals are done between a variety of traders, from banks to managed funds to individual traders

Size of the Forex Market

Forex trades approximately US$1.85 trillion a day and is by far the most liquid market in the world. It takes the NY Stock Exchange THREE MONTHS to trade the same USD value as the forex trades each and every day making it the largest and most liquid market in the world. This market can absorb trading volume and transaction sizes that dwarf the capacity of any other market. If you compare this to the US$30 billion per day futures market, it becomes clear that the futures markets provide only limited liquidity. The forex market is always liquid, meaning positions can be liquidated and stop orders executed without slippage.

Brokers and Market Makers

Market Maker - One that consistently makes two way prices, providing both a bid and an offer. Unlike brokers, market makers trade their capital

Broker - An individual who matches buy and sell orders in return for a commission. The bid and offer prices are those of the market participants and not of the broker.

Currency Pairs

Traders can trade a variety of currency pairs, limited only by which pairs each broker provides.
Major currency pairs are typically the USD pairs for example

- EURUSD
- GBPUSD
- AUDUSD
- USDJPY
- USDCHF

Cross currency pairs are pairs which do not involve the USD for example

- EURGBP
- EURJPY
- GBPJPY
- EURCHF

EUR= Euro, GBP= Pound, CHF= Swiss Franc, JPY=Yen, AUD= Aussie $

Point/Pip Values

Point/Pip values is the US$ value for each Point/Pip (these are typical values and can vary between the different Brokers and Market Makers)

.		Regular	Mini
Euro	=	$10	($1)
Pound	=	$10	($1)
Australian Dollar	=	$10	($1)
Swiss Franc CHF	=	$7.60	($0.76)
Canadian Dollar CAD	=	$7.30	($0.73)
Japanese Yen	=	$8.45	($0.85)

Major Market Participants

Traders include
Governments,
Reserve Banks,
Large Mutual Funds,
Banks,
Companies,
Hedge Funds,
Individual Traders.

Fundamental or Technical

The two basic approaches to analysing the currency market are Fundamental Analysis and Technical Analysis. The fundamental analyst concentrates on the underlying causes of price movements, while the technical analyst studies the price movements themselves.

Fundamental Analysis

Fundamental analysis focuses on the

economic
social
political
geopolitical forces

These drive supply and demand.

Fundamental analysts look at various macroeconomic indicators such as

economic growth rates,
interest rates,
inflation,
unemployment, etc.

However, there is no single set of beliefs that guide fundamental analysis. There are several theories as to how currencies should be valued. Do not try and analyse the fundamentals unless you are a financial expert. Let the experts do this and follow their lead by reading the charts.

Be aware when announcements are due.

Sometimes the experts are wrong and get caught by unpredictable actions.

Technical Analysis

Technical analysis focuses on the study of price movements. Historical currency data is used to forecast the direction of future prices. The premise of technical analysis is that all current market information is already reflected in the price of that currency, therefore, studying price action is all that is required to make informed trading decisions.

The primary tools of the technical analyst are charts. Charts are used to identify trends and patterns in order to find profit opportunities. The most basic concept of technical analysis is that markets have a tendency to trend. Being able to identify trends in their earliest stage of development is the key to technical analysis.

Software Tools

Deal Station (Also know as Trade Station or Trading Terminal)
Deal Stations are used to access the currency pairs for placing your trades. The provide all your account details such as
Dealing Rates
Open Trades
Entry Orders
Account Balances
News providers
Sometimes Deal Stations come with combined charting packages
Recommended Deal Station FXCM **www.fxcm.com** or **www.interbankfx.com**
Base currencies other than USD **www.fxcm.co.uk**

Charts
There are many different types of charts complete with sets of technical indicators, and they come in a multiple of different timeframes
1, 5, 10, 15, 30,minutes, 1 hour, 4 hour, Daily, Weekly, Monthly timeframes
Different traders use the different timeframes depending on their strategies
Recommended free charts www.interbankfx.com
Uses MetaTrader. Free charts account (demo) needs to be renewed every 30 days.

Computer Requirements

Computer

Fast as possible – Pentium 3 or greater.
Dual monitors an advantage but are not essential.
Monitor size – at least 15” flat screen (19” preferable)
Minimum RAM 256Mb
The average computer will cope but sometimes you may experience lack of RAM problems which will slow the computer

Internet

Broadband / ADSL and cable preferred
Good dial up modem is typically adequate
Unlimited download and time plans
Broadband – minimum speed is ok – need at least 3Gb download
Session times – plans with 2-4 hr session times are frustrating

Software

Windows 2000 Pro or XP
Trading software supplied by the brokers

Deal Stations

What to look for in a forex broker.

Honesty
Reliability
Security of data and information
Easy to use software
Fast accurate order execution
Minimum slippage
Charting packages incorporated with Deal Station
Financial strength and stability

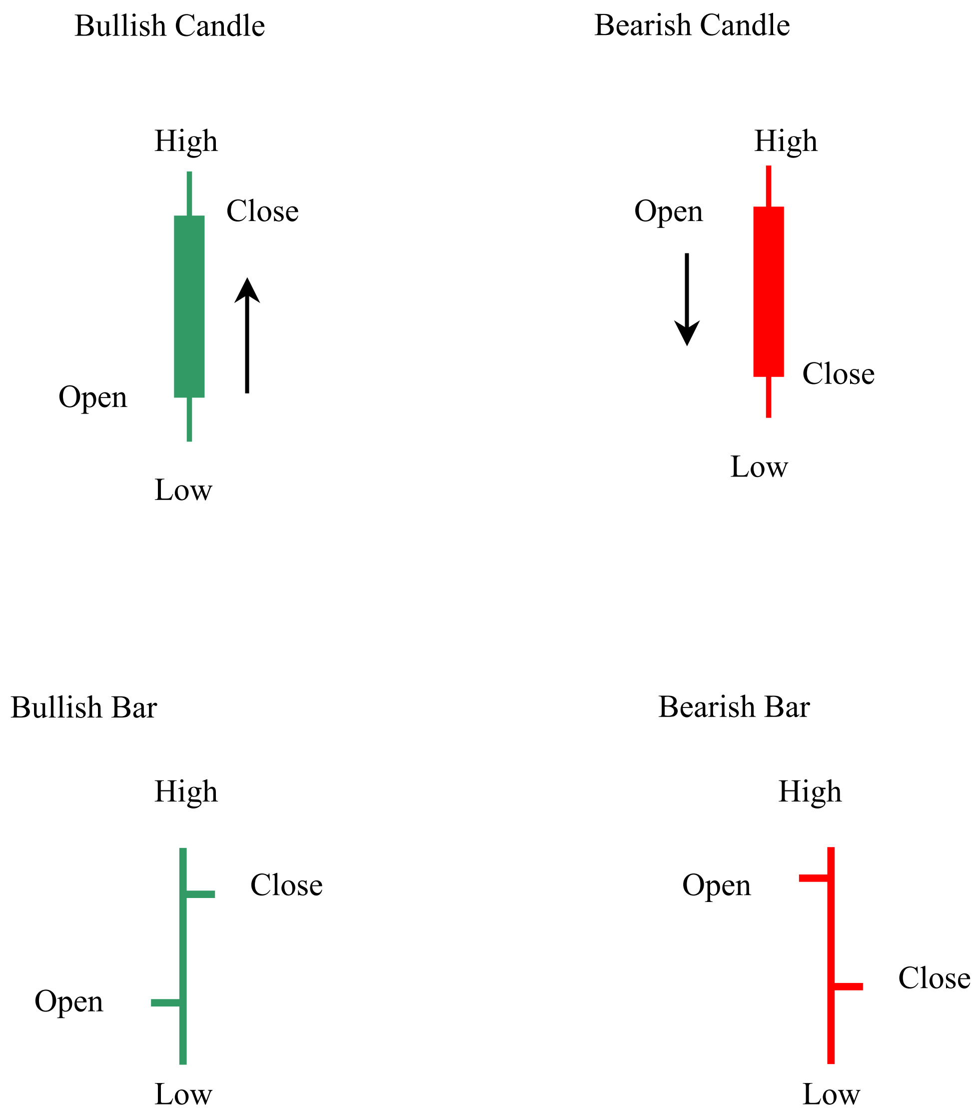
Chapter 2

Japanese Candlesticks

Introduction - Repeatable Japanese Candlestick Patterns to Exploit

Japanese candlesticks offer a better visual perspective to predict future market action than bars. Intraday charts with clear Japanese candlestick patterns are invaluable for entry and exit strategies. Below is a comparison between a candlestick chart and a bar chart

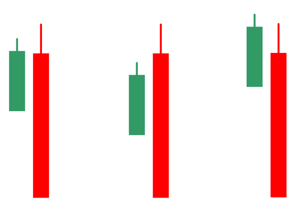
Comparison between Candlesticks and Bars.



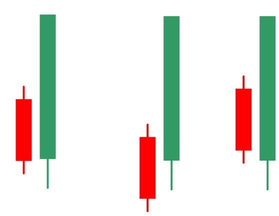
Candlestick patterns are reliable on all timeframes. Some patterns such as morning stars, evening stars and haramis are rarely seen in intraday trading because they require a gap between the close of one candle and the opening and another. With electronic forex trading and fluid price movements, gaps rarely occur between intraday candlesticks. Gaps are found where the OPEN of the following candle does not equal the CLOSE of the preceding candle.

However, we can still use morning stars and evening stars without the gaps. This is where we use "poetic license" (where POETIC LICENSE is the justifiable departure from conventional rules of form). The examples we will show in the next section depict ideal Candlestick patterns, but in reality there we do not always get ideal patterns. For example, we define the following patterns as the same.

Bearish Engulfing



Bullish Engulfing

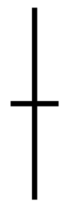


Departure from the ideal formation is often caused by sudden price movements as the chart is updating from one time period to the next. Ideally the close of the previous candle should line up exactly with the open of the following candle.

Using candlestick signals creates tremendous profit making advantages because it allows a trader to make a quick decision. Combined with chart patterns and suitable indicators, we have found candlestick patterns provide reliable entry and exit points.

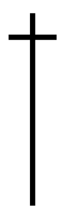
Doji

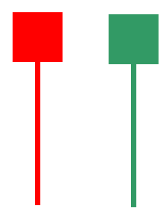
The doji is a reversal signal. The opening and closing prices are at or near the same price. The lack of a real body means the bulls and the bears are fighting and the balance of power may be shifting. The doji is a warning sign of a pending reversal. Proceed with caution. The doji needs a confirmation candlestick before you act on it, and when found with in other candle patterns the doji candle adds strength and reliability to the formation. If there is a doji in an up trend, we need a close below the close of the doji as confirmation that the trend has changed.



Dragonfly Doji (Bullish)

This doji is sometimes seen at the bottom of a move. The open and close prices are the same. The Long wick (shadow) below indicates a reversal.
This pattern is more bullish than a hammer.

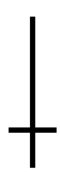


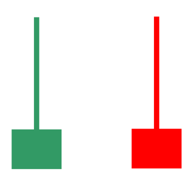


Hammer

Gravestone Doji (Bearish)

The gravestone doji is often seen at tops. The open and close prices are the same. There is a tall wick (shadow). This pattern is more bearish than a shooting star. Technically, it should not have a body.





Shooting Star

Spinning Top

The spinning top can be a very good reversal signal and can be any colour. The smaller the real body, the less the direction the market has.

Bullish Engulfing Pattern

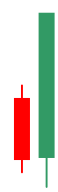
The market must be in a clearly definable downtrend, not in sideways consolidation.
The first candle is the colour of the short term trend (down) or a doji. The second candle is the colour of the reversal (up). The second candle body engulfs the previous body. Ignore the wicks (shadows).
An even stronger signal occurs when a candle body engulfs the bodies of 2 or 3 previous candles.

Bearish Engulfing pattern

The market must be in a clearly definable trend. The first candle is the colour of the short term trend (up) or a doji. The second candle is the colour of the reversal (down). The second candle body engulfs the previous candle body. Ignore the wicks (shadows).The size of the candle body being engulfed does not matter. A stronger signal occurs when 2 or more candle bodies are engulfed by one candle body.

Bearish Engulfing

Bullish Engulfing



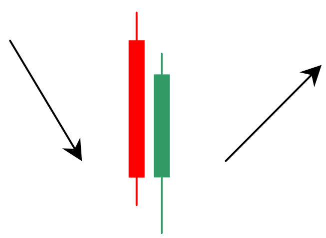
Tweezer Bottom

Two or more candlesticks with matching bottoms. They can be composed of real bodies, wicks (shadows) and/or dojis.

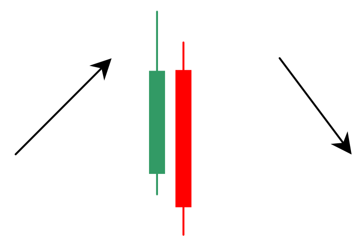
Tweezer Top

Two or more candlesticks with matching tops. They can be composed of real bodies, wicks (shadows) and/or dojis. These occur on consecutive or nearby candles.

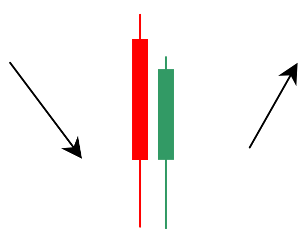
Tweezer Bottom

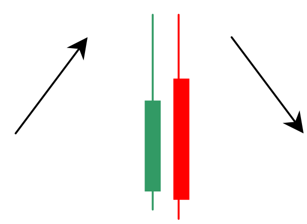


Tweezer Top



Tweezer Top and Bottom candlestick patterns are good reversal signals. The wicks or bodies must be at the same level. Look for the 2 types of tweezer bottoms and 2 types of tweezer tops.

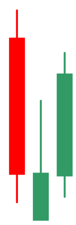




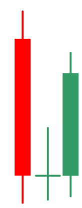
Morning Star Bullish reversal sign

A morning star is a bullish three candle pattern. The first candle is a tall red real body, the second is small real body (red or green) that gaps below the first real body and the third is a tall green candle that closes at least 50% into the red body. However, if there is no gap because intraday forex candles don’t gap often, still count it as a morning star.

Bullish Morning Star



Bullish Morning Doji Star



Evening Star Bearish Reversal signal

A three candle pattern in an upward price swing. The first candle is a tall green real body. The second is a small real body (red or green) that gaps above the previous real body, and the third is a tall red candle that closes at least 50% into the first candle’s real body.

Bearish Evening Star

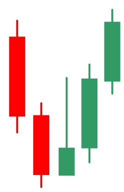
Bearish Evening Doji Star

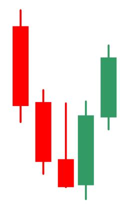
Hammer Bullish after a significant downturn

A reversal signal. The long lower shadow must be at least twice the length of the real body. The real body can be any colour. The hammer needs a confirmation candle before we can act on it. We need to see a close above the close.

Inverted Hammer   Bullish at bottom of trend

Wait for a bullish verification candle before acting

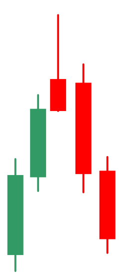


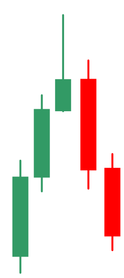


Shooting star   Bearish at top of trend

A shooting star can mark a top and is often retested. It is a reversal indicator after an up trend (long upper shadow is bearish as higher prices are rejected.).

Shooting Star (Shooting Star is the top candle) (Inverted Hammer)





Sometimes a pattern with four candlesticks occurs. They consist of an extra candle such as a doji or spinning top. When this occurs the pattern gets added strength and is more reliable. Also where a hammer occurs in conjunction with a spinning top or doji, the result is stronger and more reliable.

Shooting Star with Spinning Top

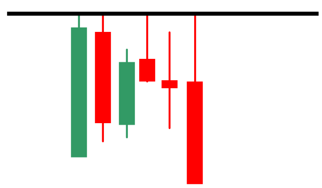
Hammer and Spinning Top

Bullish and Bearish Rejection Patterns

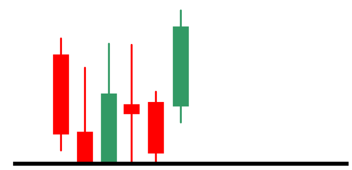
The Bullish and Bearish Rejection patterns are reversal patterns and occur in conjunction with support and resistance lines. When the currency pair attempts to breach the support or resistance line and fails it has been rejected at that level and reverses.

Bearish Rejection

Resistance Line



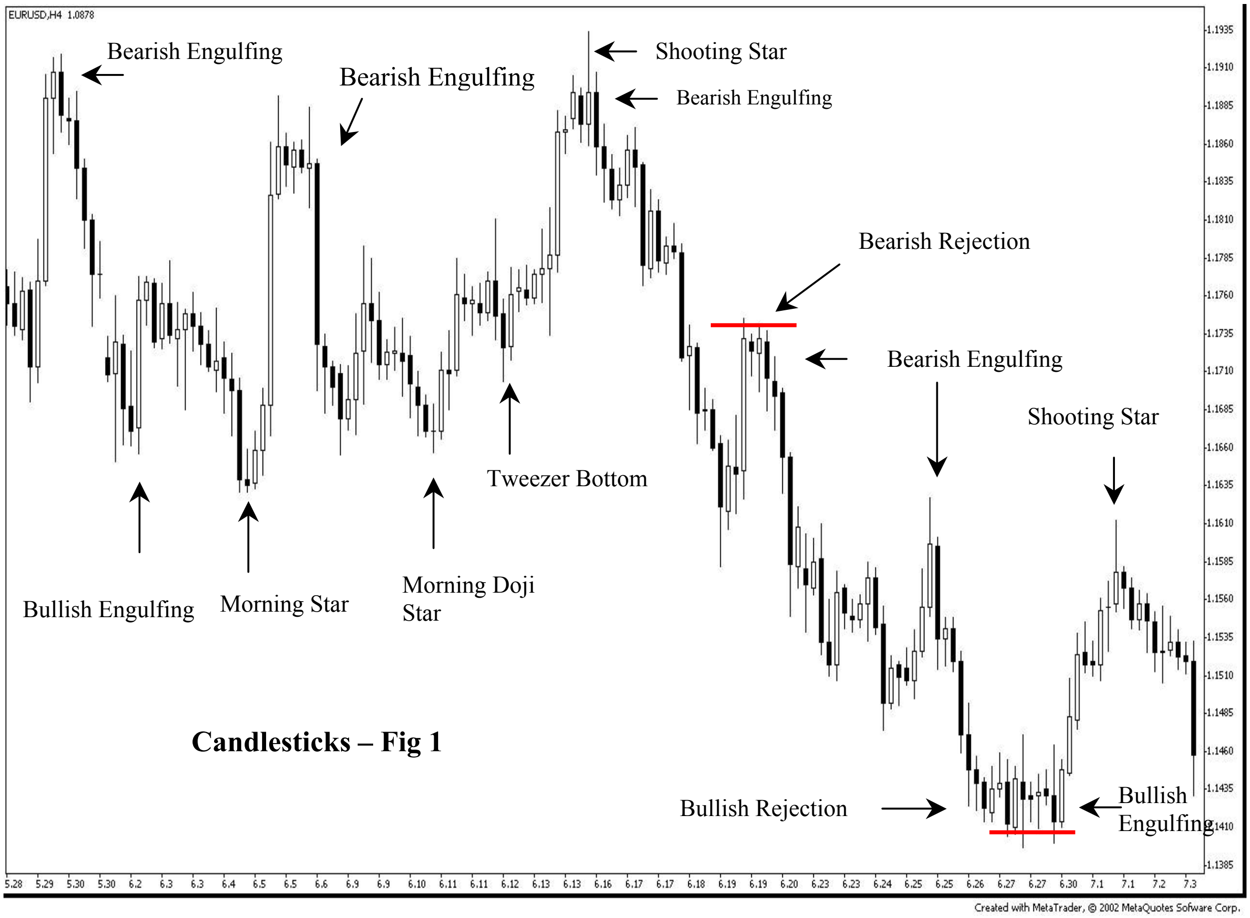
Bullish Rejection



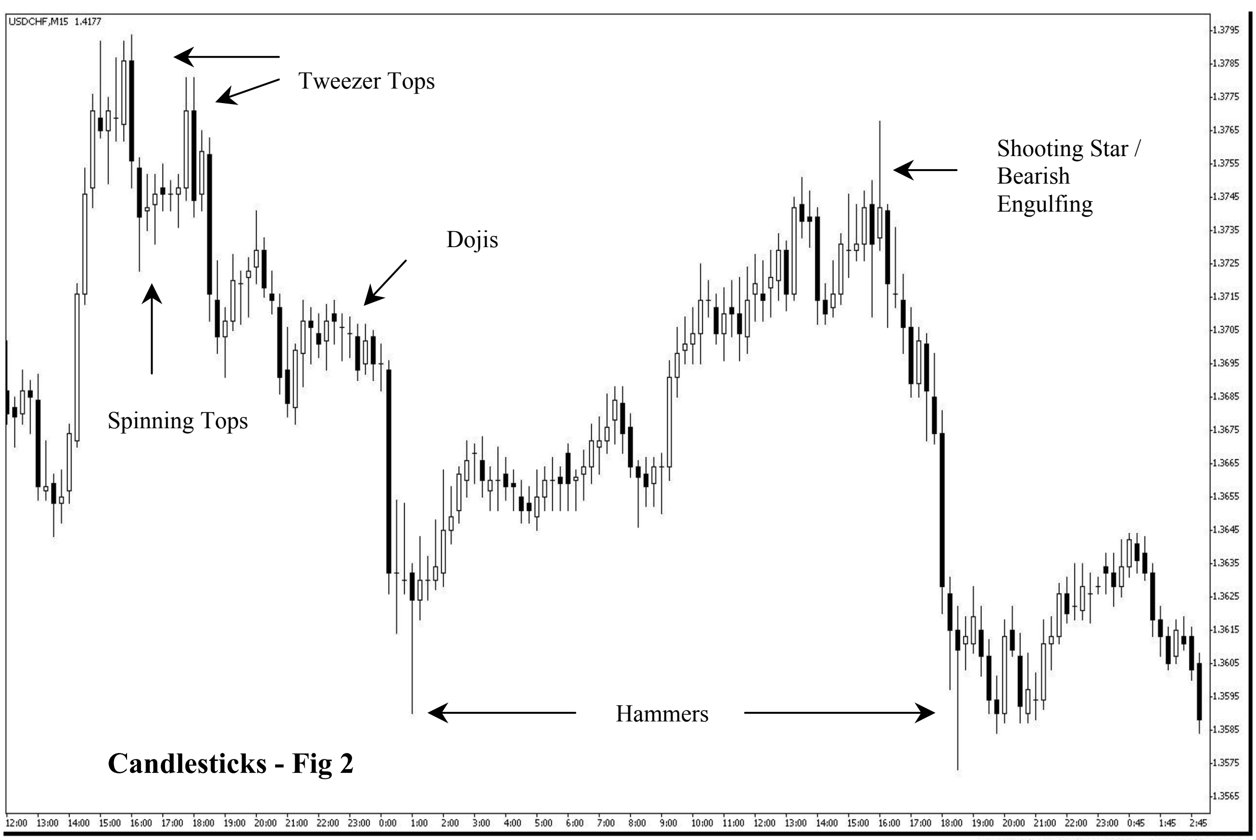
Support Line

There are many more combinations of Candlestick patterns. We have only selected a few that work well for us and limited the number to keep things simple.

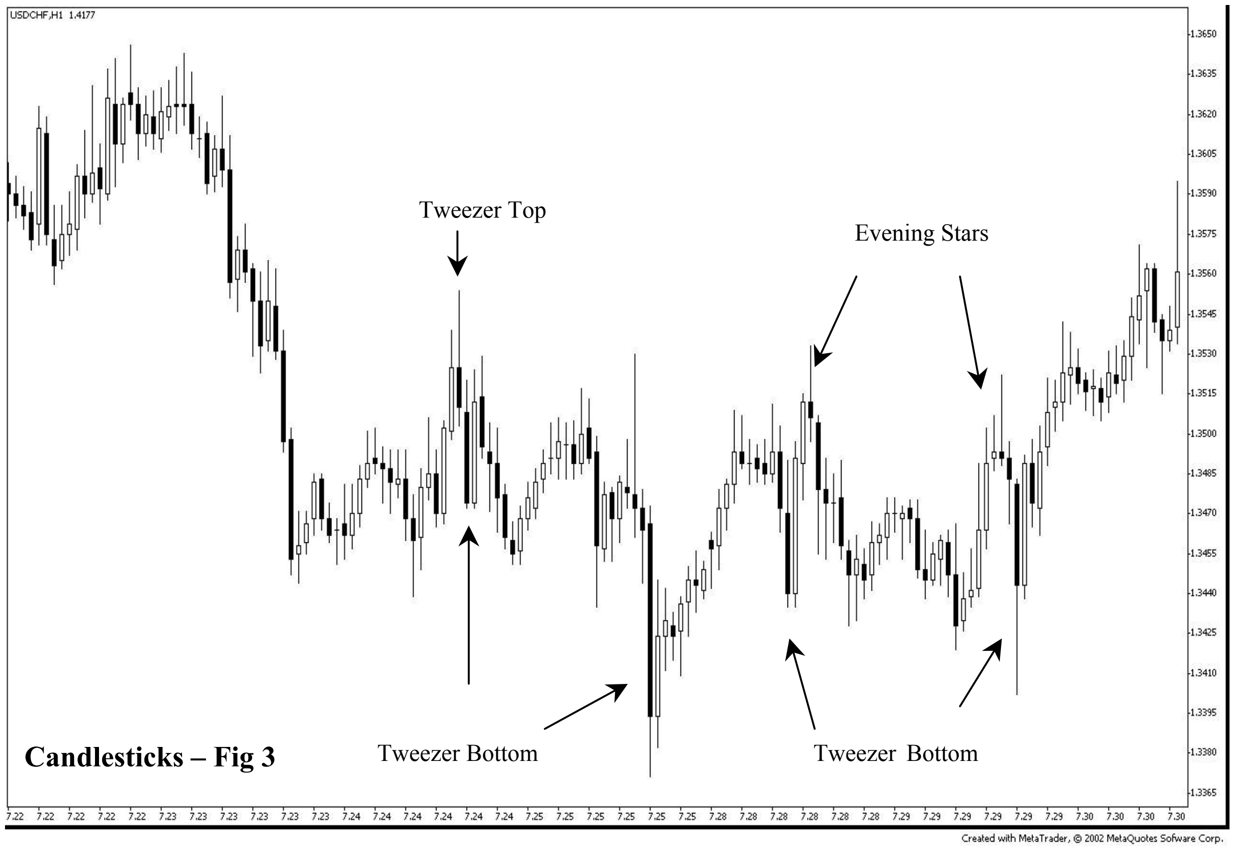
Following this section are a number of charts which show the candlestick patterns in their different forms.



Candlesticks – Fig 1



Candlesticks - Fig 2



USDCHF,H1 1.4177
Tweezer Top
Evening Stars
Candlesticks – Fig 3
Tweezer Bottom
Tweezer Bottom
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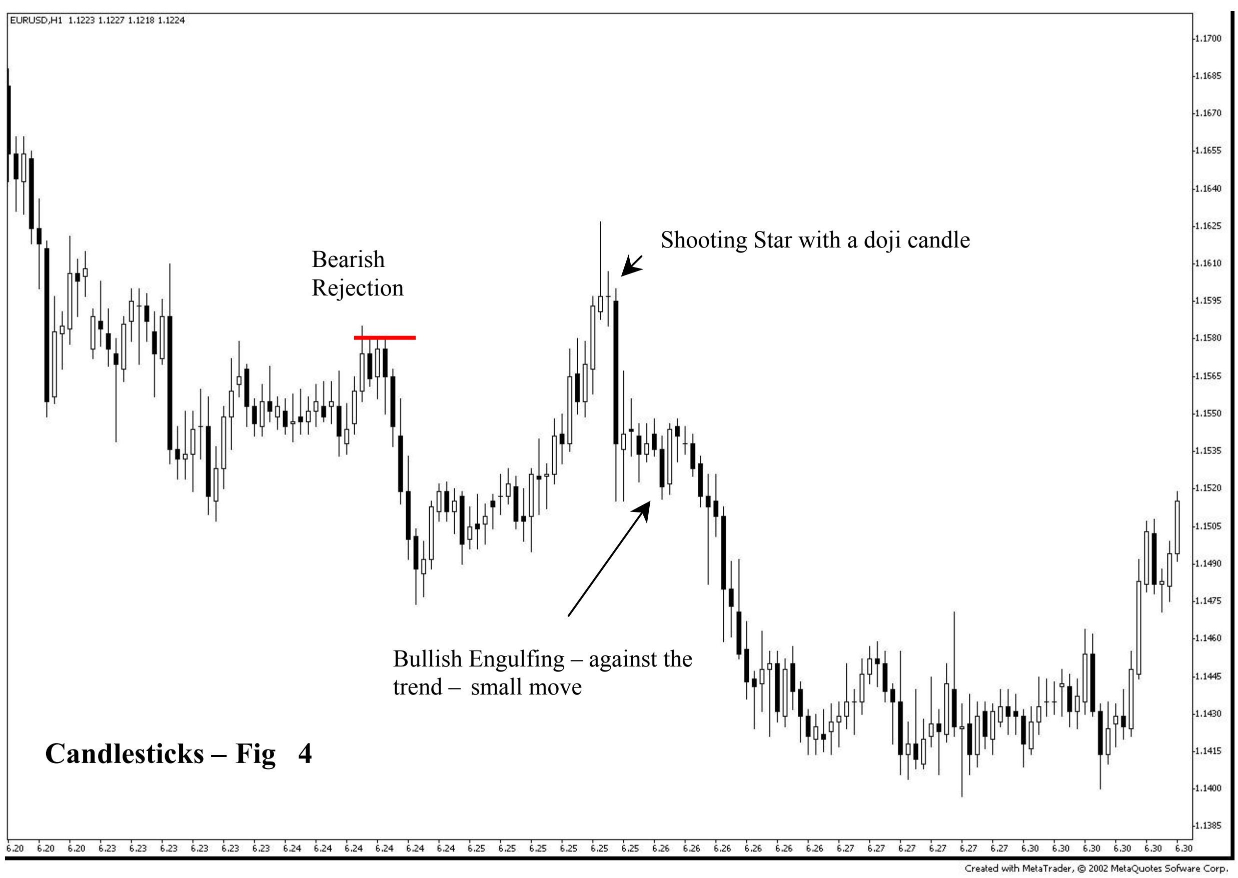

EURUSD,H1 1.1223 1.1227 1.1218 1.1224
Bearish
Rejection
Shooting Star with a doji candle
Bullish Engulfing – against the
trend – small move
Candlesticks – Fig 4
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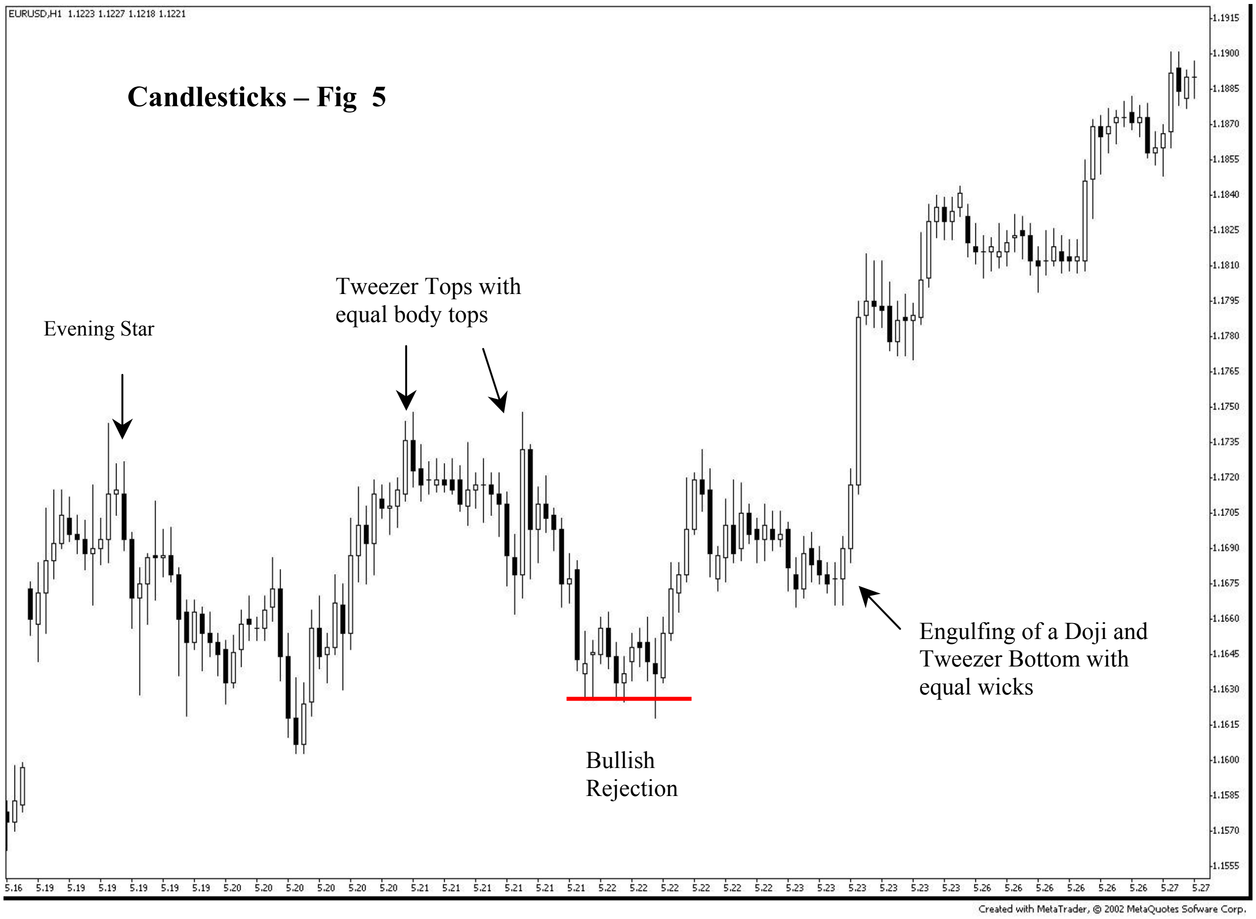
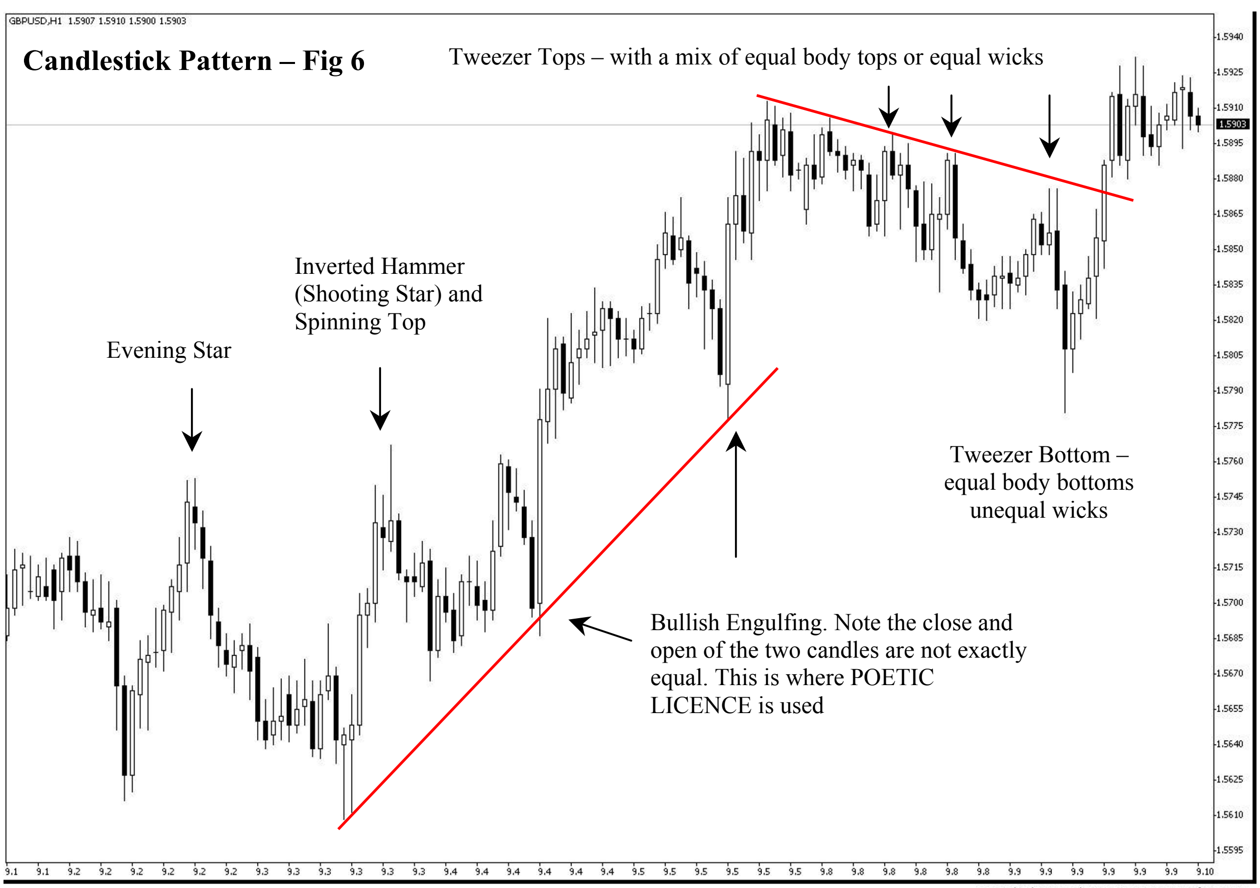

EURUSD,H1 1.1223 1.1227 1.1218 1.1221
Candlesticks – Fig 5
Evening Star
Tweezer Tops with
equal body tops
Bullish
Rejection
Engulfing of a Doji and
Tweezer Bottom with
equal wicks
Created with MetaTrader, © 2002 MetaQuotes Sofware Corp.


GBPUSD,H1 1.5907 1.5910 1.5900 1.5903
Candlestick Pattern – Fig 6
Tweezer Tops – with a mix of equal body tops or equal wicks
Evening Star
Inverted Hammer
(Shooting Star) and
Spinning Top
Tweezer Bottom –
equal body bottoms
unequal wicks
Bullish Engulfing. Note the close and
open of the two candles are not exactly
equal. This is where POETIC
LICENCE is used
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Chapter 3

CHART PATTERNS

Chart Patterns are patterns which occur in trading charts that help traders predict the probable direction the currency pair is likely to move. Chart patterns may form over any timeframe from a couple of hours to even years. Japanese Candlestick patterns also provide a reliable insight as to where the immediate direction of the currency pair may head. Firstly, we will look at chart patterns then candlestick patterns. Sketches have been provided to illustrate the patterns and in a following section a number of real forex charts have been included.

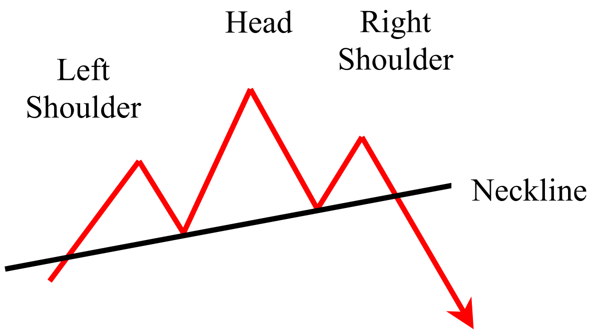
Patterns can be divided into two main categories (a) Reversal Patterns where the market reverses its direction and (b) Continuation Patterns where the market continues in the same direction after a period of consolidation or retracement.

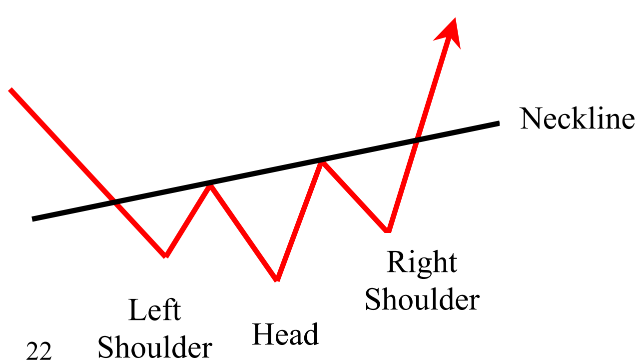
Reversal Patterns	Continuation Patterns
Head and Shoulders	Channels / Rectangles
Ascending and Descending Wedges	Flags and Pennants
123, Higher Lows, Lower Highs	Triangles
Double Tops and Bottoms	1234s, Higher Lows, Lower Highs
Trendlines, Support and Resistance Lines	
Pivots	
Japanese Candlestick Patterns	

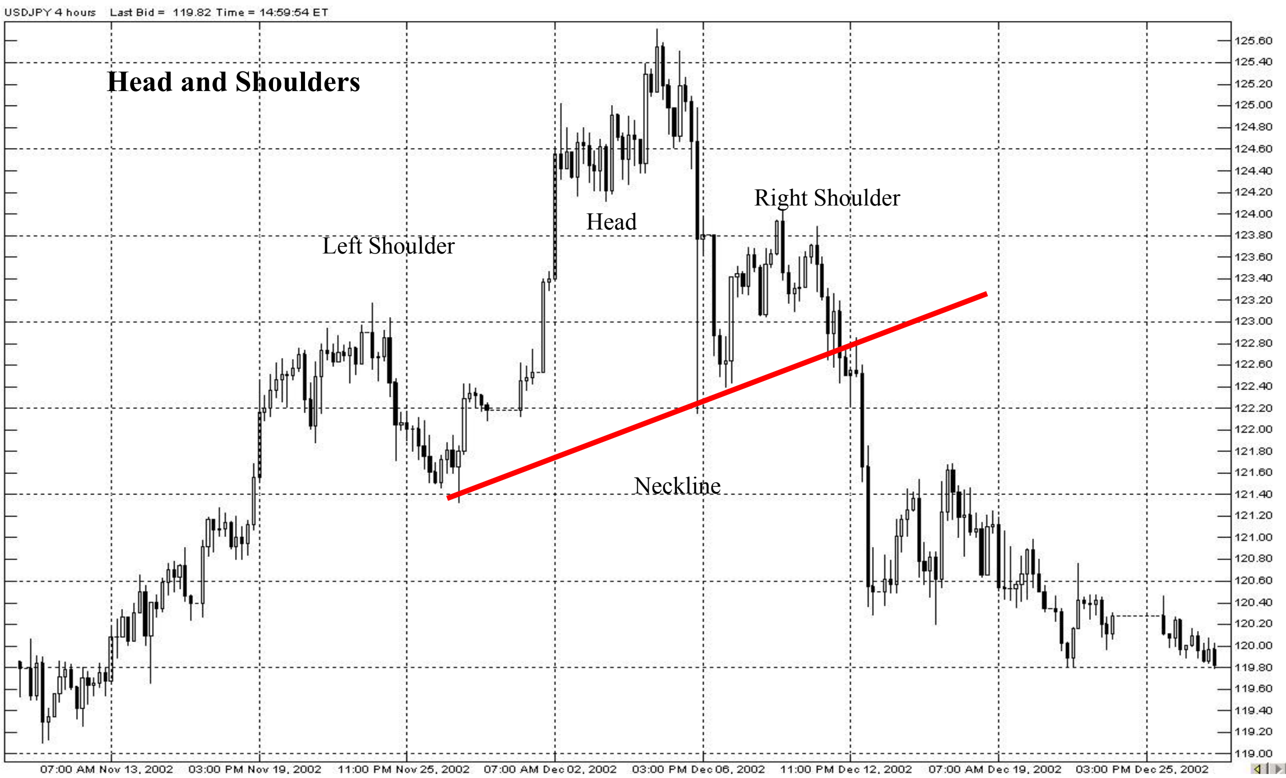
REVERSAL PATTERNS

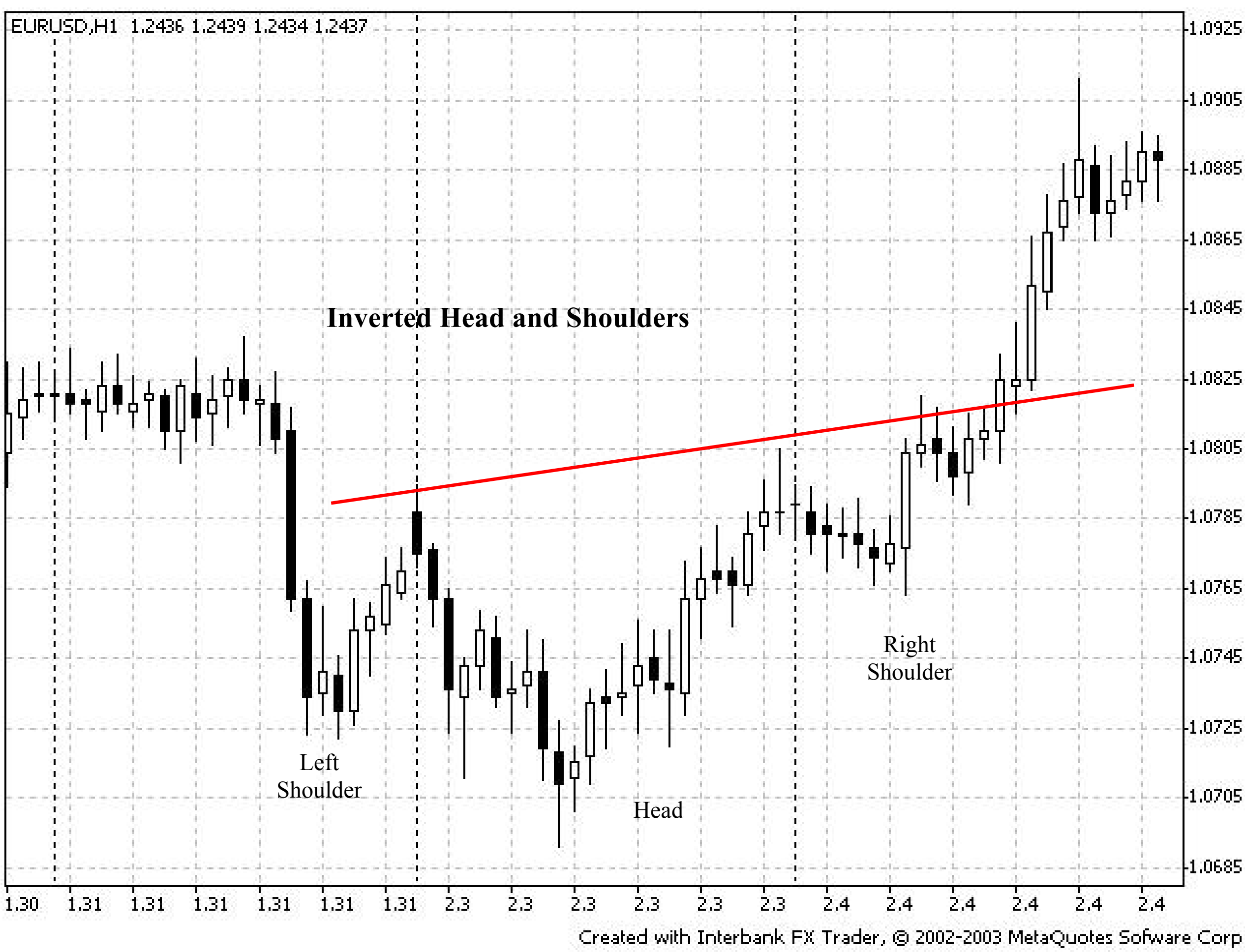
Head and Shoulders

Head and Shoulder Patterns can be normal or inverted. The normal head and shoulders consists of three peaks where the center peak is the highest while the Inverted Head and shoulders consists of three lows with the center low the lowest. A neckline is drawn through the lowest points either side of the head. A break through the neckline provides a "sell opportunity" With the Inverted Head and shoulders the neckline is drawn through the top of the two peaks either side of the head. A break through the neckline provides a "buy opportunity".





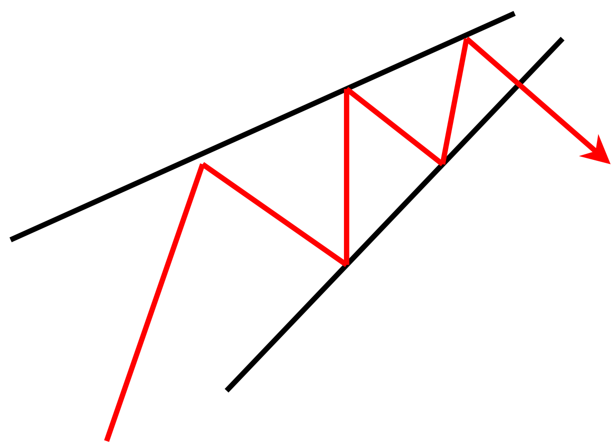

USDJPY 4 hours Last Bid = 119.82 Time = 14:59:54 ET
Head and Shoulders
Left Shoulder
Head
Right Shoulder
Neckline
07:00 AM Nov 13, 2002
03:00 PM Nov 19, 2002
11:00 PM Nov 25, 2002
07:00 AM Dec 02, 2002
03:00 PM Dec 06, 2002
11:00 PM Dec 12, 2002
07:00 AM Dec 19, 2002
03:00 PM Dec 25, 2002


EURUSD,H1 1.2436 1.2439 1.2434 1.2437
Inverted Head and Shoulders
Left Shoulder
Head
Right Shoulder
Created with Interbank FX Trader, © 2002-2003 MetaQuotes Sofware Corp.

Ascending and Descending Wedges

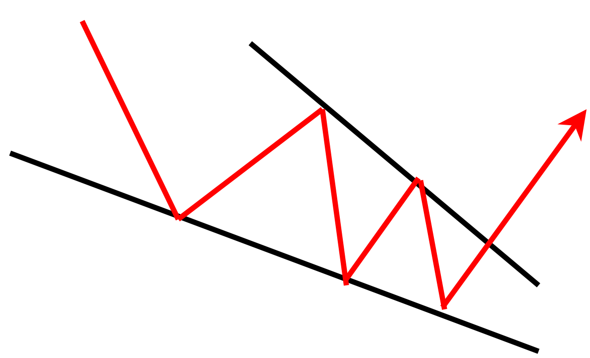
Ascending Wedge in an uptrend-bearish

This pattern occurs when the slope of price candles' highs and lows join at a point forming an inclining wedge. The slope of both lines is up with the lower line being steeper than the higher one. Place an order to breakdown and out of the wedge. The drop out of the wedge can be very dramatic.



Descending Wedge in a downtrend -bullish

This formation occurs when the slope of the price candle high and lows join at a point forming a declining wedge. The slope of both lines is down with the upper line being steeper than the lower one. To trade this pattern, place an order on a break up and out of the wedge.

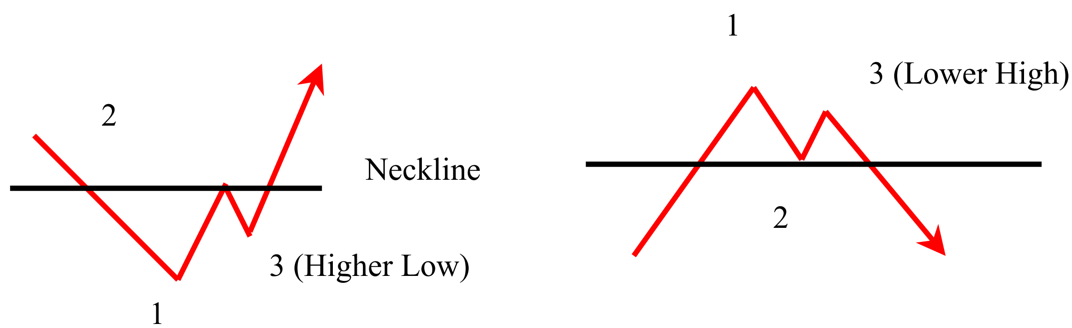


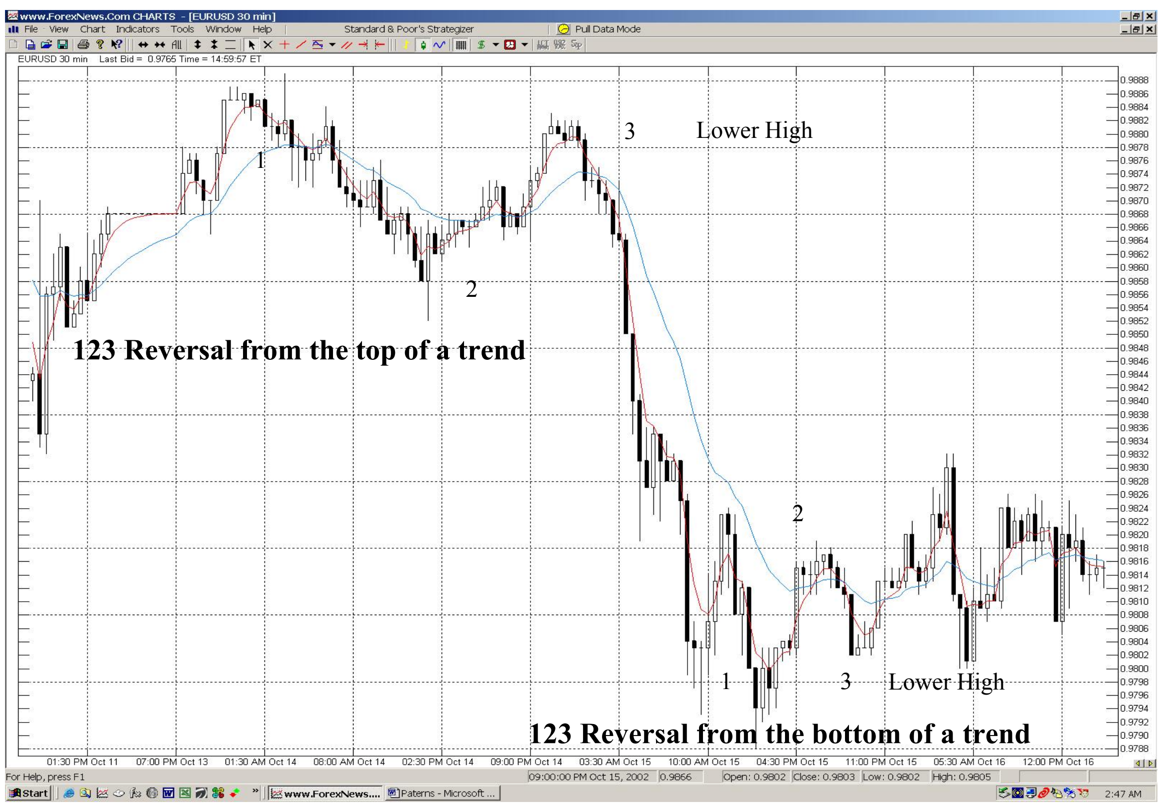

Ascending Wedges


Descending Wedge

123s Higher Lows and Lower Highs

This pattern can also be a continuation pattern, but at the top or bottom of a trend this pattern provides a good confirmation of the direction change. The “3” point is a failed retest of the previous High or Low. The failure of the test signifies the change from a Bull market to a Bear market and vice versa. The “3” point can also be referred to as a Higher Low or a Lower High. This pattern is very useful for finding a trade entry when there isn’t a CI system entry.





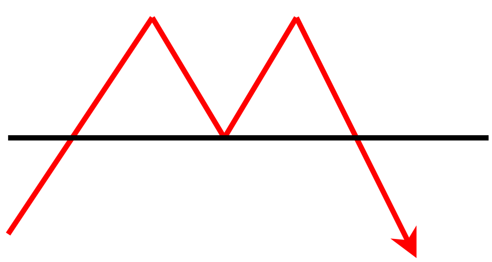
Double Tops and Double Bottoms

Double tops and bottoms are one of the most well known and powerful money making techniques known by forex traders. They are a test of a previous high or low. Triple Tops and Triple Bottoms are similar but have three Peaks or Lows

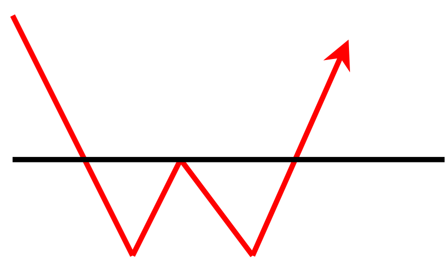
A double top occurs when the price attempts to break out above a recent pivot high but fails this pattern consists of two tops of approximately equal height. Many traders wait for the confirmation when the retracement low beneath the two peaks is broken to the downside after the second peak. When a double top has been formed, the price objective is usually an equal distance down beyond the correction low (valley between the two peaks). Double tops are not as strong in a strong up trend as they are in a downtrend.

The mirror image of the double top is the double bottom – a bullish formation. Support cannot be established until there is a test of the last point of support.
Double tops (M shaped) and double bottoms (W shaped) are stronger if the equal points are a long way apart. The two peaks of a double top do not have to be exactly at the same level so allow a few pips difference. A double bottom with a slightly higher low for the second point can be a strong bullish signal. Double bottoms are not as strong in a strong downtrend as they are in an up trend. A double bottom which coincides with a pivot line can produce a fast move upwards.

Double Top



Double Bottom




www.ForexNews.Com CHARTS - [GBPJPY 15 min]
GBPJPY 15 min Last Bid = 192.84 Time = 15:19:07 ET
Double Bottom
Double Bottom


USDJPY Day Last Bid = 119.17 Time = 16:29:41 ET
Double Tops and/or Triple Top
Double Bottom

Trendlines, Support & Resistance Lines

Support and Resistance Lines

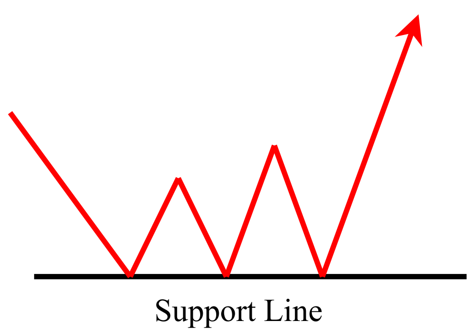
Support and Resistance Lines can be both horizontal and sloping.

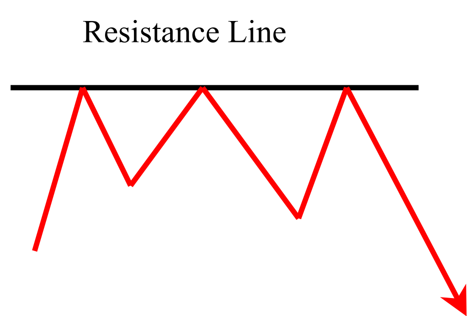
Resistance Lines are drawn through previous pivot highs. Resistance acts like a ceiling.
Depending on its strength, a resistance line can pause an up trend and when very strong can reverse an up trend. Its strength is determined by the length of time it serves as resistance and the number of times it has been touched by price. The longer the period of time, the greater the strength of the line. Some traders will sell at resistance lines.

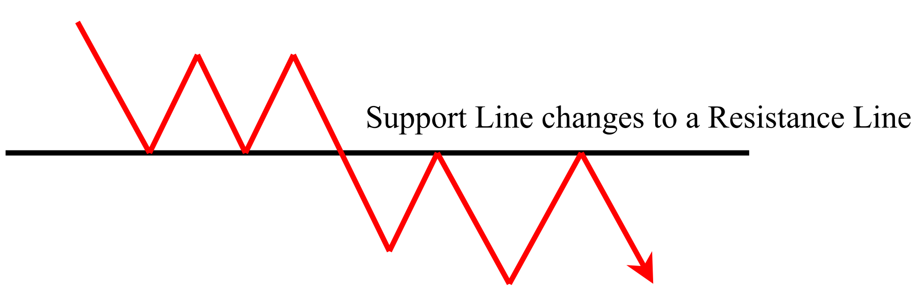
Support Lines act like a floor and are price areas where a currency pair finds it difficult to penetrate below the Support Line. Support lines are drawn through a previous set of lows and can either pause a downtrend or reverse it depending on the strength of the Support Line. Some traders buy at Support Lines. All Traders see the same thing.

Do not BUY close to RESISTANCE LINES
Do not SELL close to SUPPORT LINES

as there is a good chance there will be a reversal







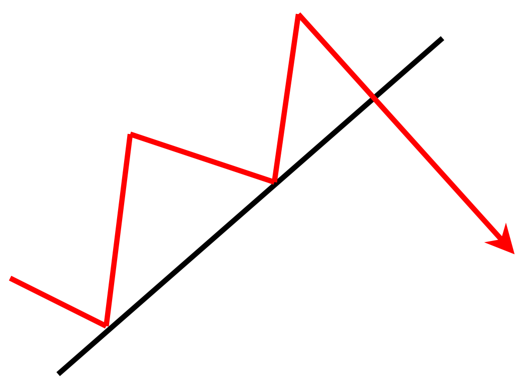
Trendlines

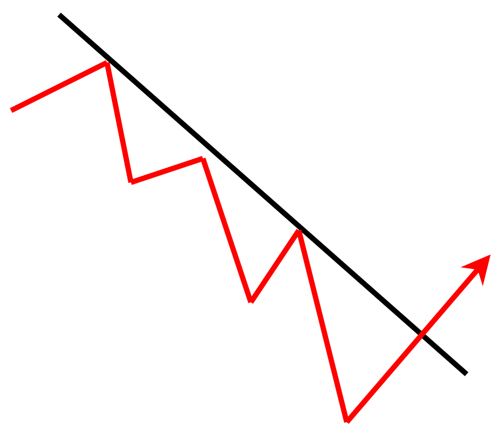
It is important for traders to know which way the market is going, i.e. is it trending up or down or even going sideways. Money can be made in all these conditions, but it is important that traders "Trade with the Trend"

A trendline is a straight line that connects key prices areas in a move, an up trendline connects successive Higher Lows or Higher Highs and a down trendline connects successive Lower Highs or Lower Lows. Trendlines connecting successive Lower Highs is also known as a resistance line while a trendline connecting successive Higher Lows is also known as a support line.

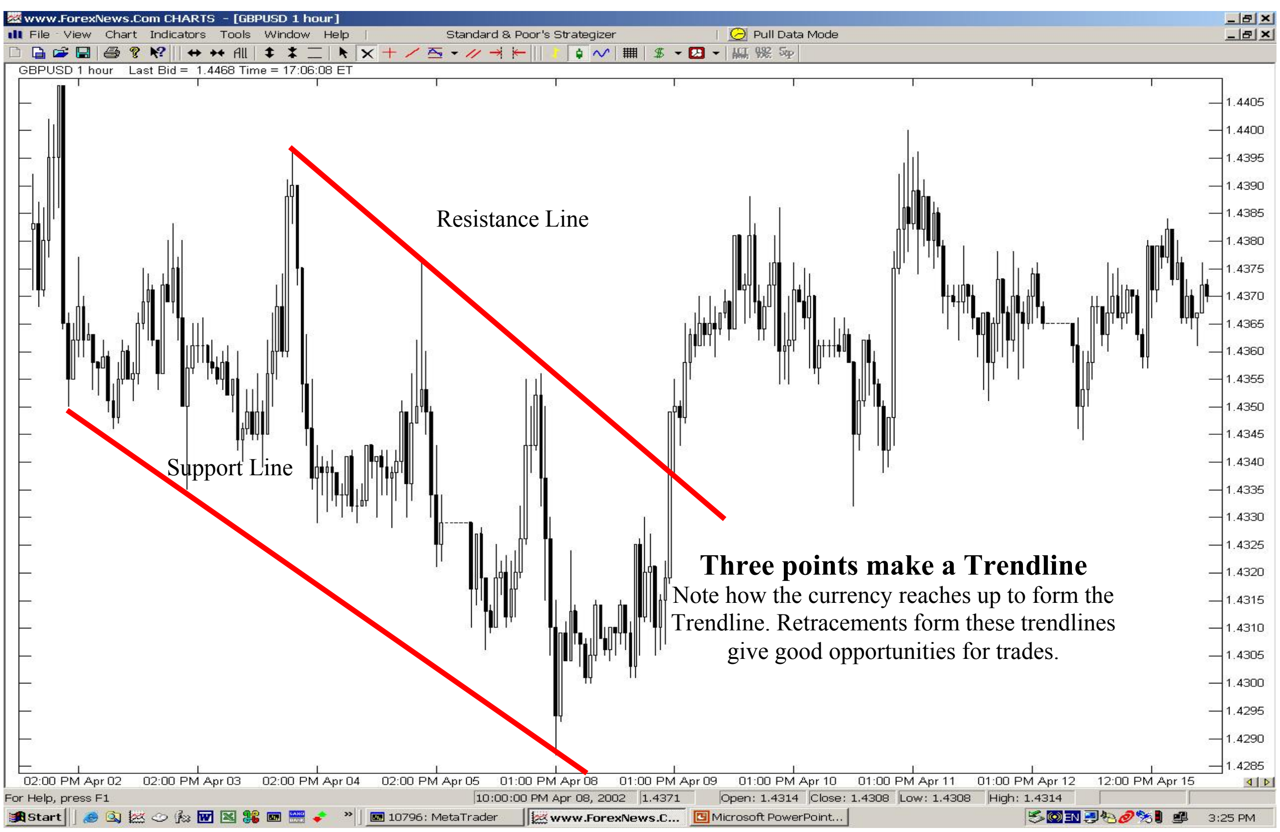
Trendlines can be defined as border lines for making buy or sell decisions. Trendlines form the boundary lines for most of the chart patterns as will been seen in later sections.

A Trendline of about 45 degrees is considered the most reliable, and if steeper than that the market typically cannot sustain that kind of momentum for long. Watch to see if the market bounces off a trendline or slices through. Watch for retests of the trendline after the price has sliced through.
You will often find good buying or selling points at the 3rd touch of a trendline.






www.ForexNews.Com CHARTS - [GBPUSD 15 min]
GBPUSD 15 min Last Bid = 1.5926 Time = 05:15:39 ET
Trendlines Support / Resistance Lines
Note the currency bounces off the support and resistance lines, without penetrating the line
Resistance Line
Support Line

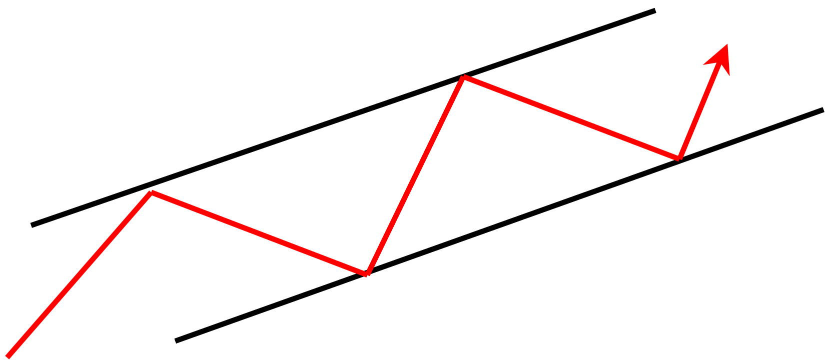

www.ForexNews.Com CHARTS - [GBPUSD 1 hour]
GBPUSD 1 hour Last Bid = 1.4468 Time = 17:06:08 ET
Resistance Line
Support Line
Three points make a Trendline
Note how the currency reaches up to form the Trendline. Retracements form these trendlines give good opportunities for trades.

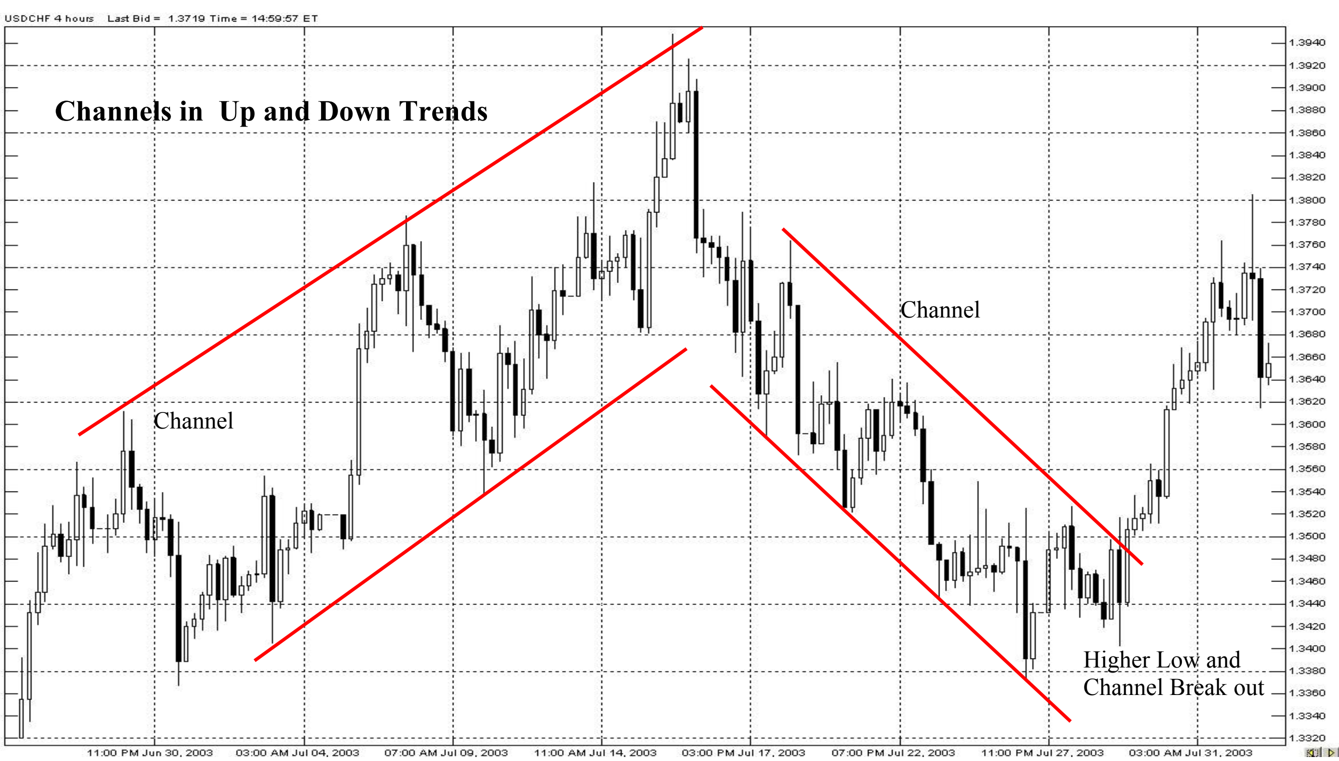
Channels

When prices trend between two parallel trendlines they form a channel. When prices hit the bottom trendline, this may be used as a buying area and when prices hit the upper trendline, this may be used as a profit taking area and vice versa.

Breakouts of trendlines and support and resistance lines provide good areas for buying or selling.

Channels can be upward or downward sloping and horizontal



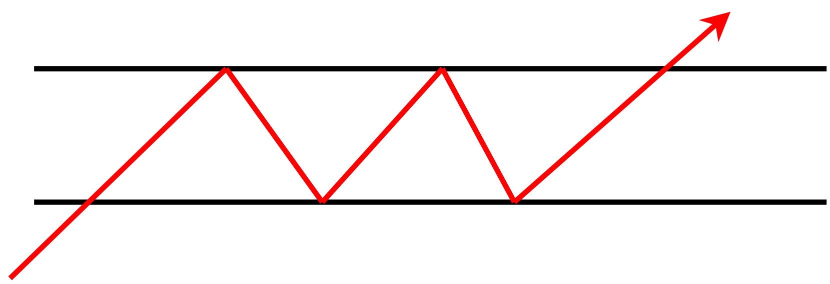


CONTINUATION PATTERNS

Rectangles

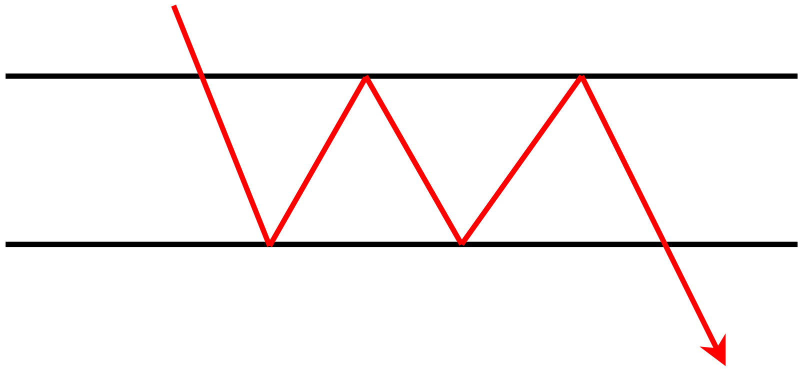
Rectangle –bullish in an up trend

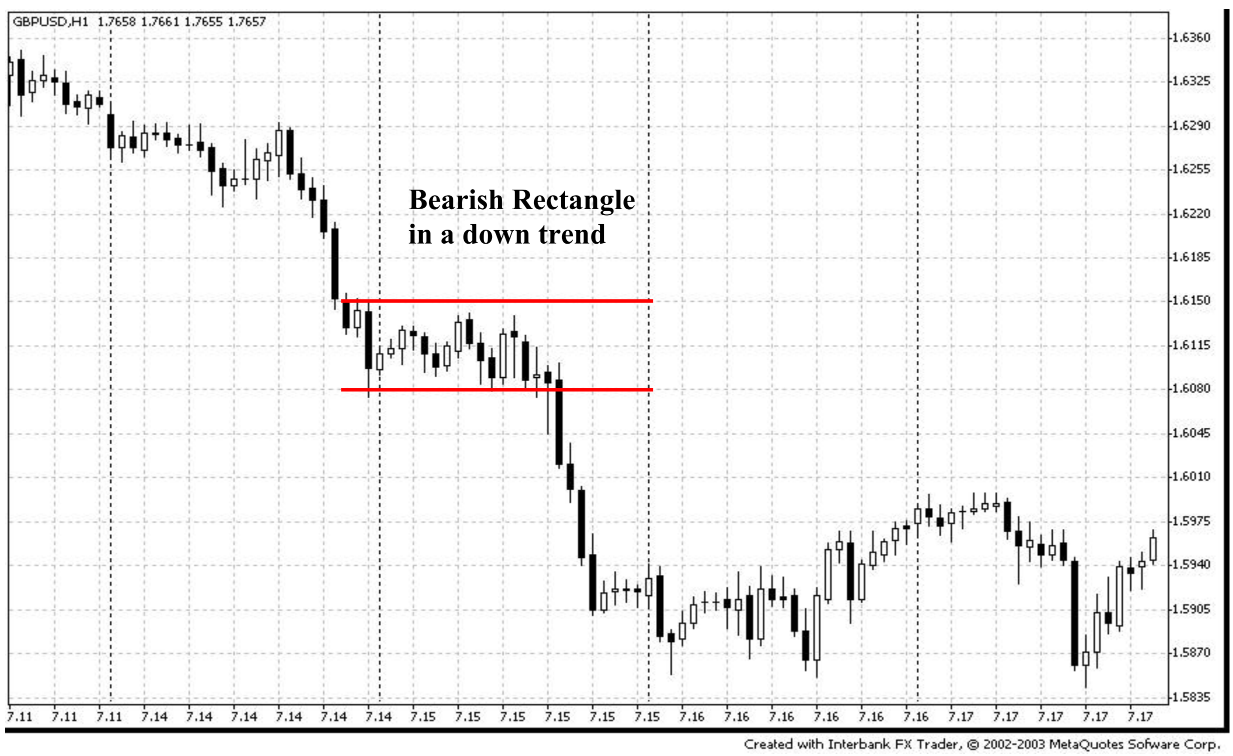
When the market is flat, draw a line through the highs and a line through the lows. Buy when the market closes above the straddle. Sometimes, there will be a bull trap and the market will break back into the rectangle and below the support line.



Rectangle- bearish in a downtrend

Sell when price breaks below support and closes below support.

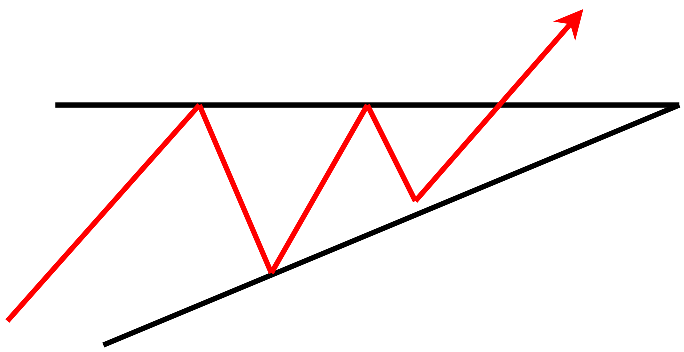




Ascending Triangles

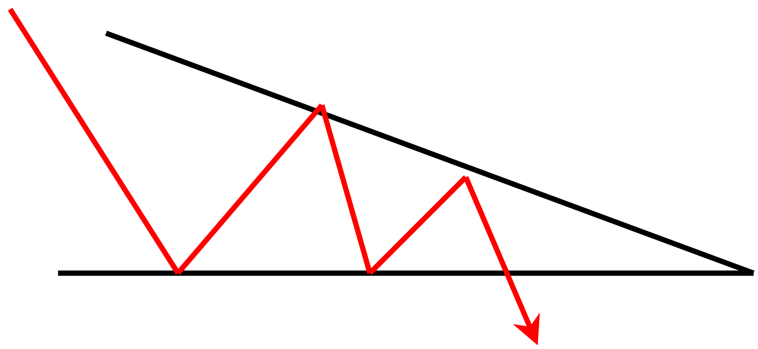
Ascending Triangle in an up trend –bullish

A formation in which the slope of price highs and the slope of price lows are converging to a point. The resistance line is parallel to the bottom edge of the chart while the support line is upward sloping. Place a buy order on a break up and out of the triangle. However, if the pattern fails, sell when the market breaks out and below the triangle



Descending Triangle in a downtrend –bearish

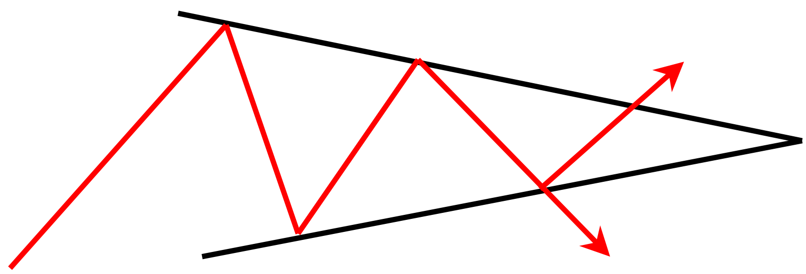
The defining characteristic of descending right angle triangles is the pattern of declining highs and a series of equal lows. This combination of points can be connected to form a right angle triangle. The hypotenuse should be sloping from higher to lower and left to right. An illusory double bottom invites one last batch of weak hands to buy just before a sharp break signals major selling. Sell when price breaks out and down.
Descending triangles are amongst the most reliable of all technical patterns because both supply and demand are easily defined.

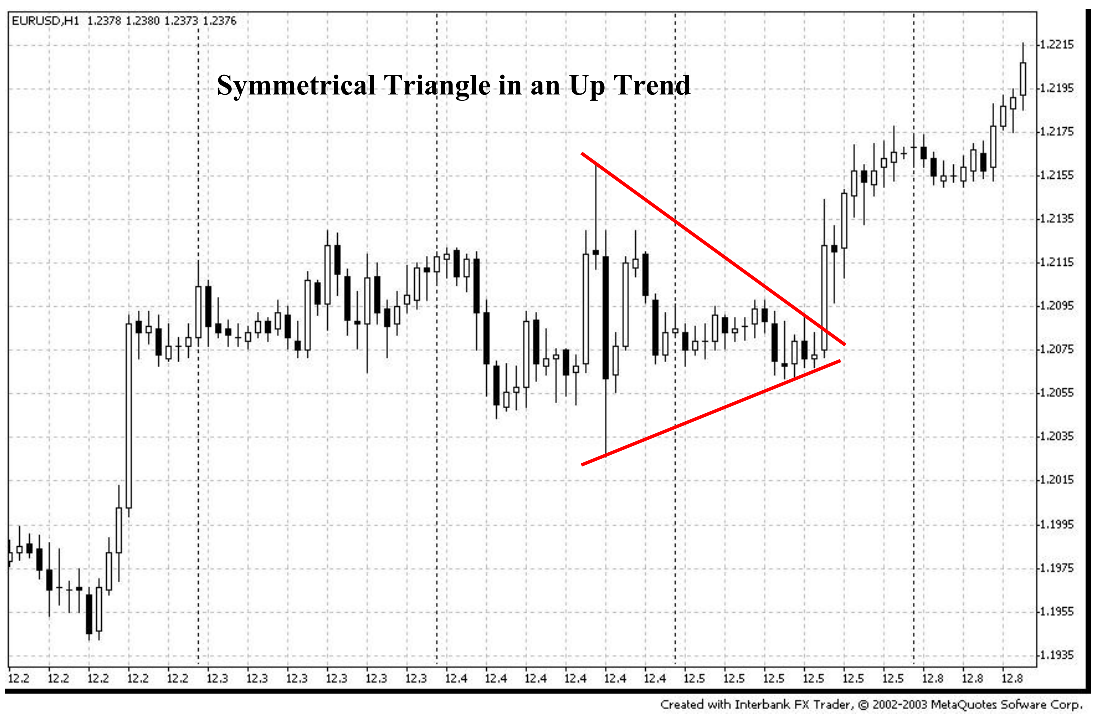


Symmetrical Triangles

Symmetrical Triangle in an up trend –bullish

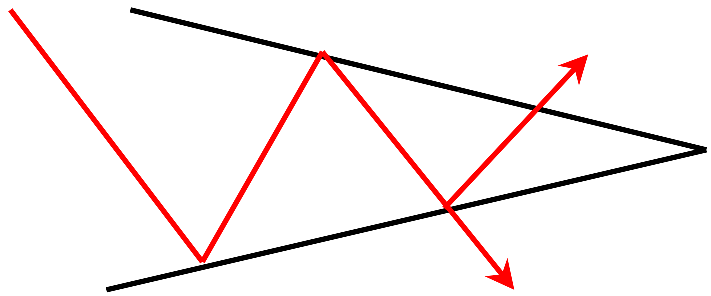
A symmetrical triangle is a formation in which the slope of price highs and lows are converging to a point. Support and resistance are sloping. Symmetrical triangles are formed by rallies and sell-offs, each smaller than the last. As time moves on, an event is imminent. The move will be explosive. Place a buy order on a break up and out of the triangle but the price could go in the opposite direction...

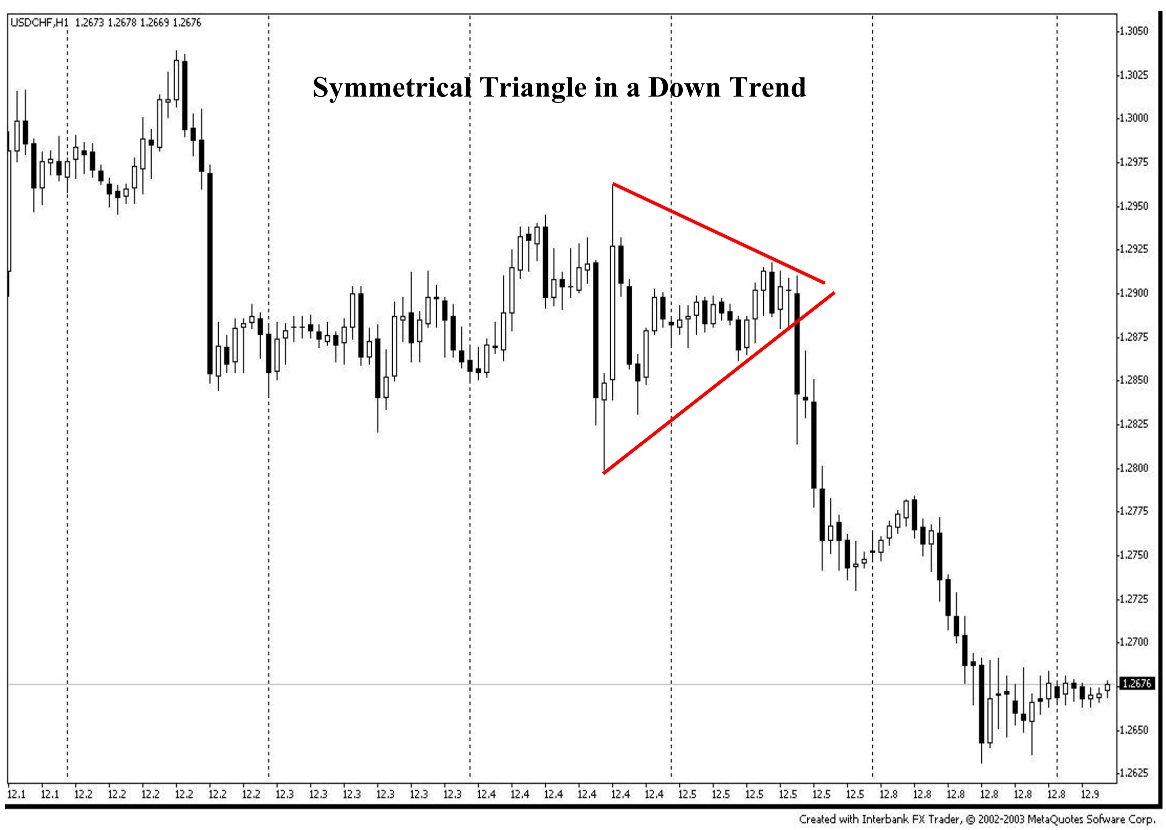


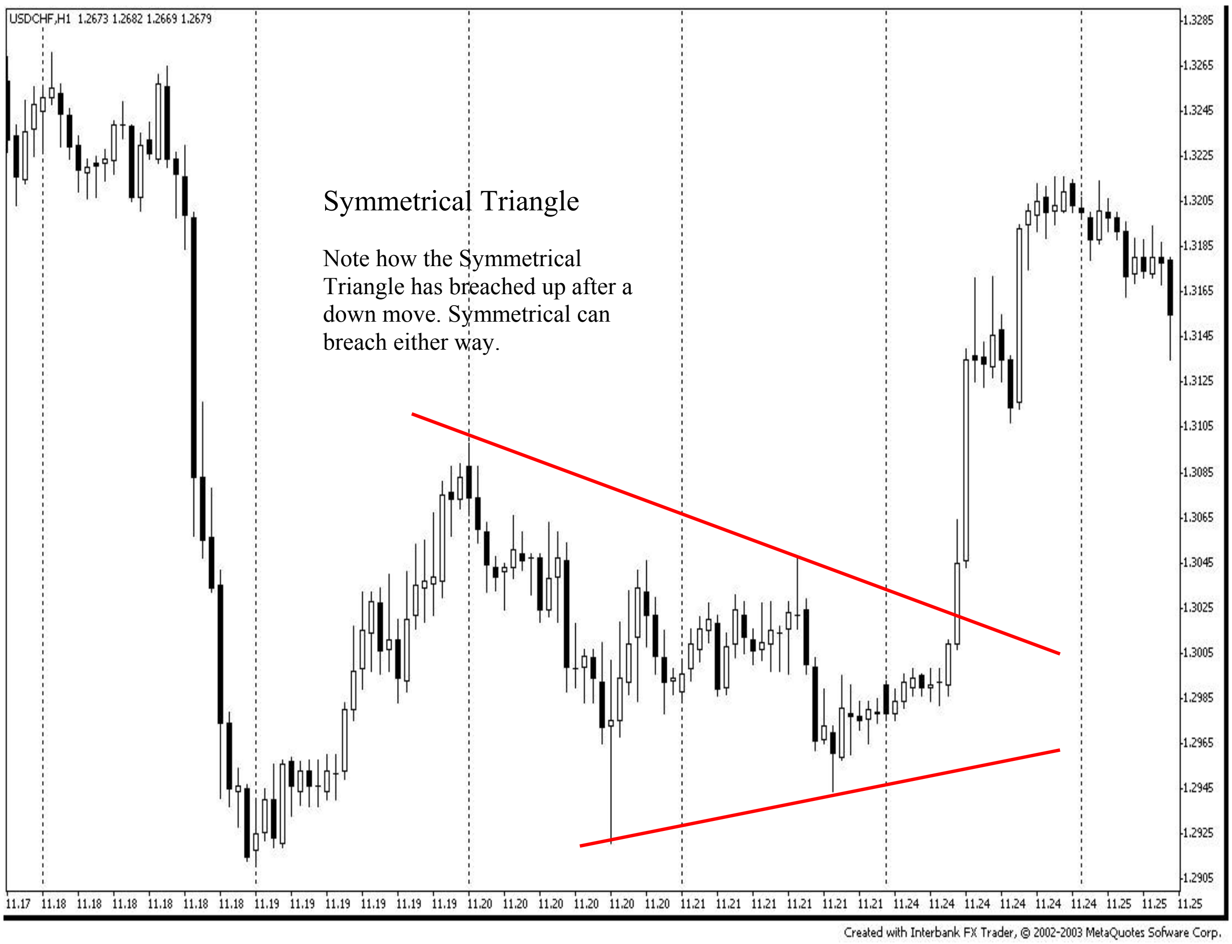


Symmetrical Triangle in a downtrend –bearish

Place a sell order on a breakout below the triangle.



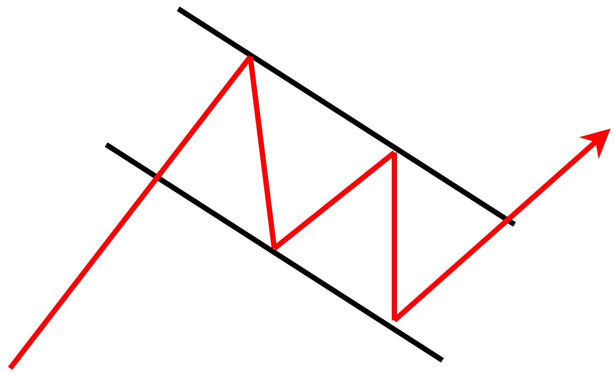



USDCHF,H1 1.2673 1.2682 1.2669 1.2679
Symmetrical Triangle
Note how the Symmetrical Triangle has breached up after a down move. Symmetrical can breach either way.
Created with Interbank FX Trader, © 2002-2003 MetaQuotes Sofware Corp.

Flags

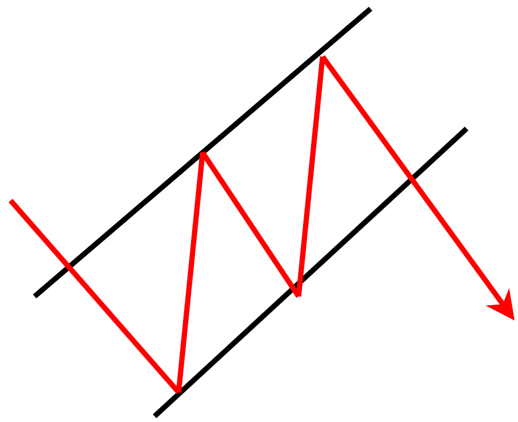
Bull Flag in an up trend-bullish

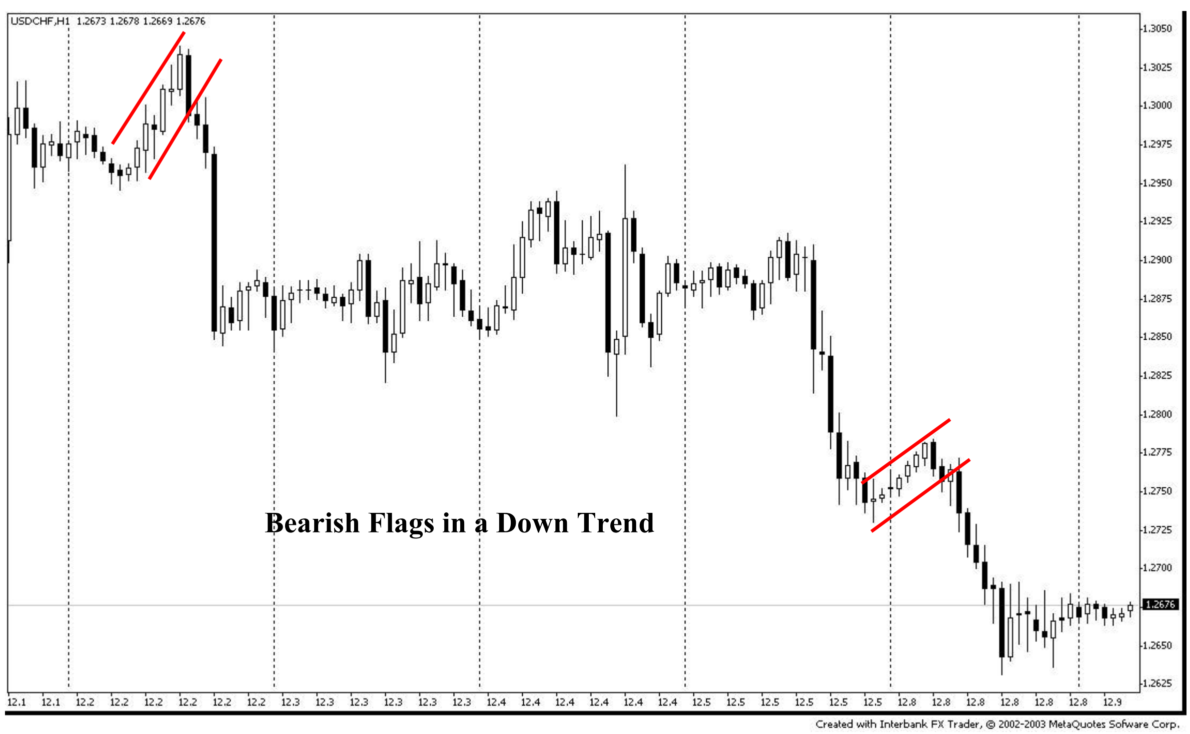
Bull flags are characterized by lower highs and lower lows with pattern slanting against the trend. Their trendlines run parallel.



Bear Flag in a down trend –bearish

Bear flags have higher highs and higher lows and slope against the trend. Their trendlines run parallel. Flags are typically seen right after a big, quick move.

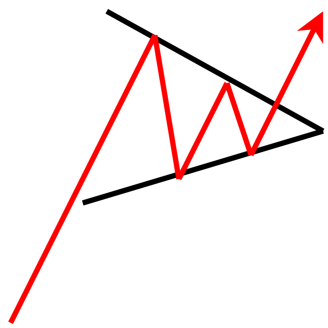


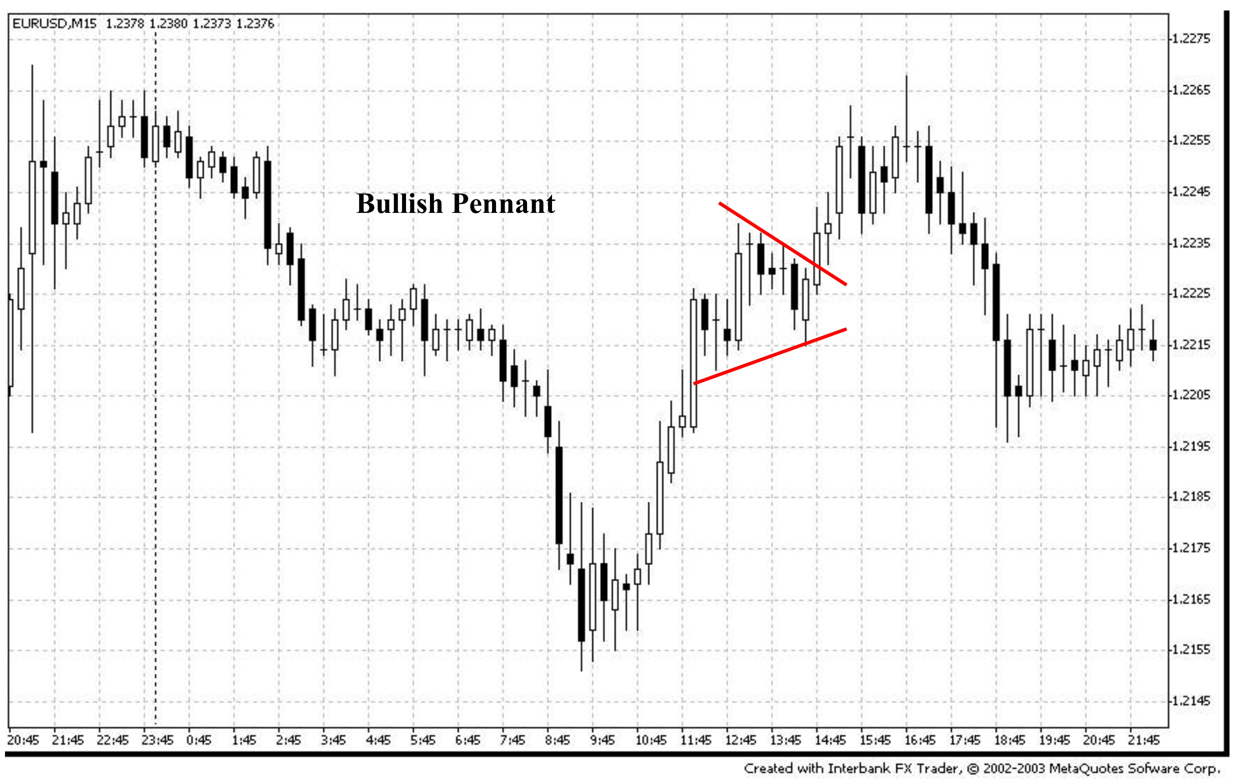


Pennants

Bullish Pennant in an uptrend-bullish

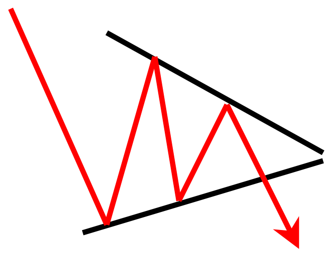
The bullish pennant looks similar to a symmetrical triangle but is typically smaller in size (volatility) and duration. These are similar to Bullish Flags and have a triangle pattern rather than a "flag pattern"

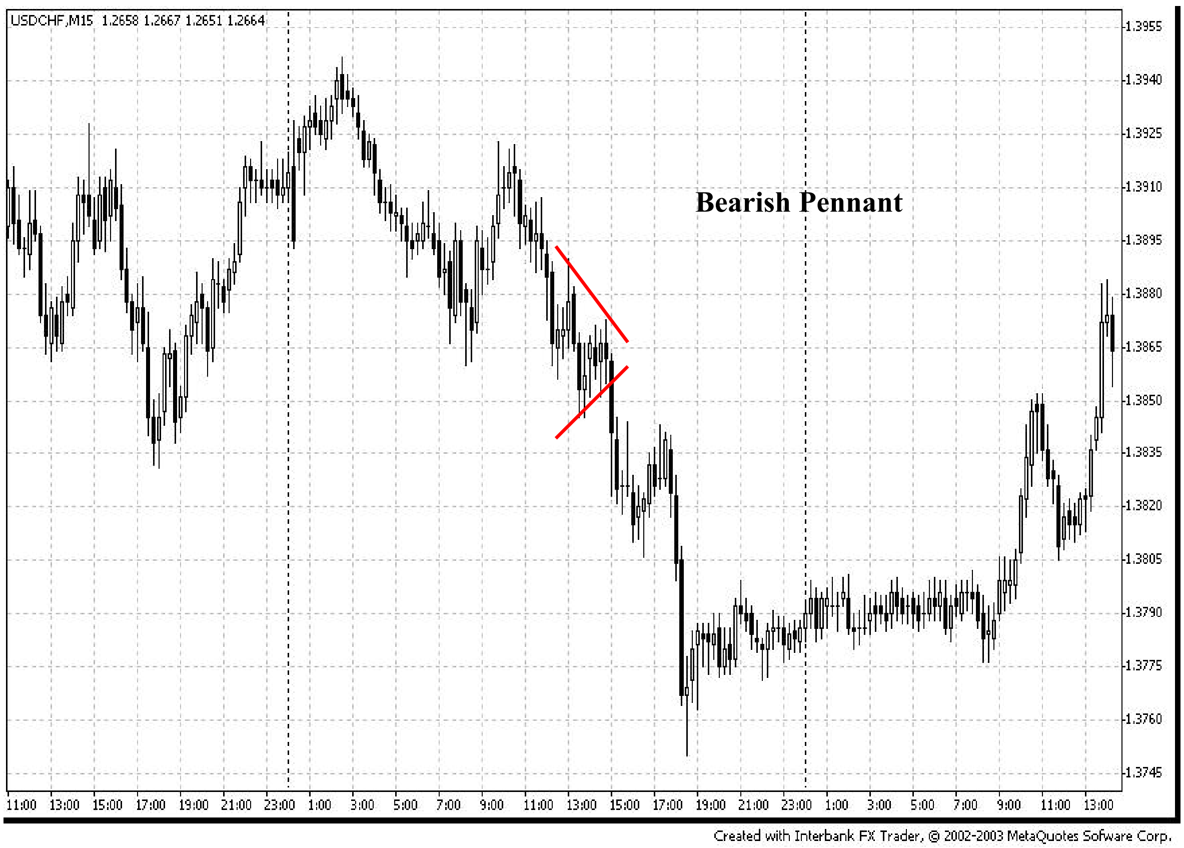




Bearish Pennant in a downtrend-bearish

These are similar to Bearish Flags and have a triangle pattern rather than a “flag pattern”





False Breaks

Note: If price does not move in the expected direction, the pattern has failed. However traders can reverse their trade and still make a profit.

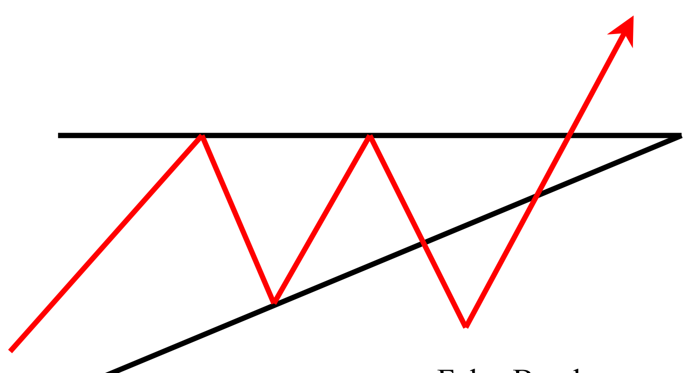
False Breaks produce fast moves

A false breakout occurs when price moves up past a previous pivot high and suddenly reverses for a fast move in the opposite direction. A false break can also appear when the market breaks out of the top or bottom of a triangle or other common pattern and reverse through the bottom or top of the pattern unexpectedly.

A false breakdown occurs when price moves down past a previous pivot low and suddenly reverses up for a fast move.

False breaks occur when the market breaches a chart pattern then suddenly reverses for the main move. Sometimes this is done by traders “setting up” the market, and typically the false break stops and turns on a Fibonacci point or on a Support or Resistance Line

This occurs reasonable often and can also be the setup for the major move. Sometimes this a test of a previous point of significance like a trendline, low or high or fibonacci line etc.



False Break


www.ForexNews.Com CHARTS - [EURUSD 15 min]
EURUSD 15 min Last Bid = 0.9721 Time = 14:59:56 ET
Bull Trap / false breach
08:00 PM Sep 11
11:45 PM Sep 11
03:30 AM Sep 12
07:15 AM Sep 12
11:00 AM Sep 12
02:45 PM Sep 12
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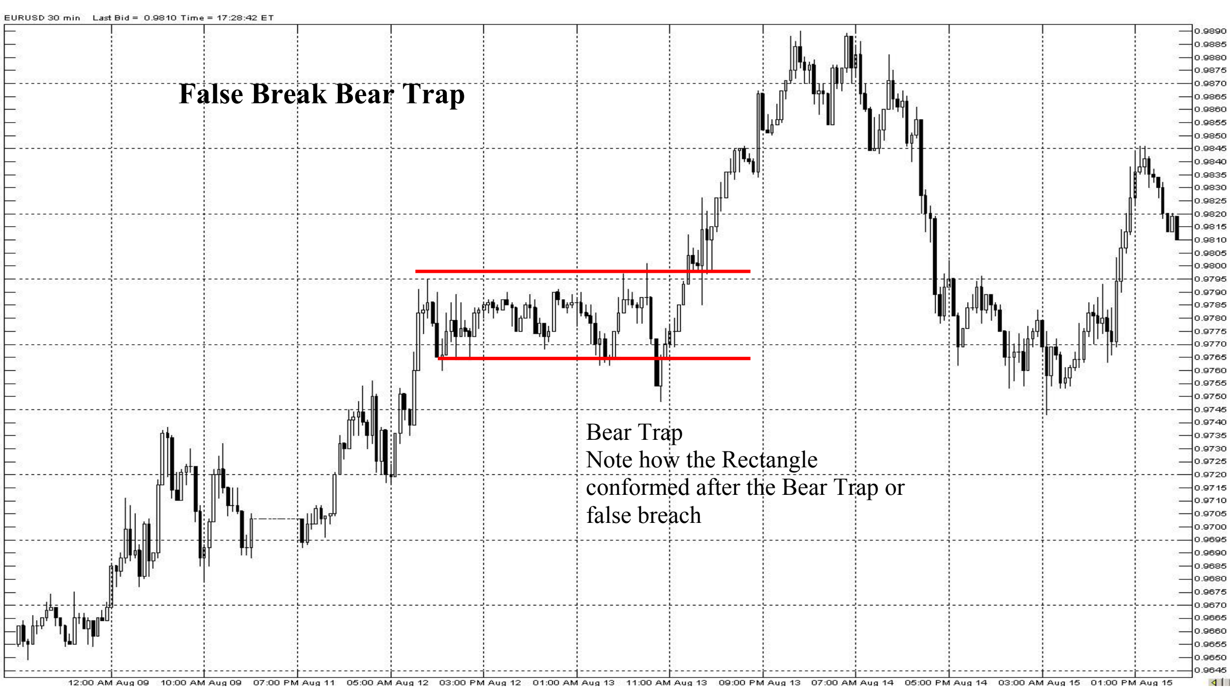
09:30 AM Sep 13
01:15 PM Sep 13


EURUSD 30 min Last Bid = 0.9810 Time = 17:28:42 ET
False Break Bear Trap
Bear Trap
Note how the Rectangle
conformed after the Bear Trap or
false breach

Retracement System

If you buy every retracement when the market is going up, you will be wrong only once at the top.
A well known saying is "buy dips in a rally".
Similarly, if you sell every retracement when the market is trending down, you will be wrong only once at the bottom. A well known saying is "sell rallies in a downtrend".

It is easier for a market to continue its direction than to reverse its direction. This is known as persistence of trend. Look for retracements to start at critical points. i.e. Fibonacci levels, trendlines, support, resistance, pivot lines &previous highs and lows.

Trade with the trend and enter after a retracement and take profits as best you can. Wait for a pivot to form and enter in the direction of the trend. Enter on a candle which makes a swing high or swing low and closes back in the direction of the trend.

If price starts at point 1, moves up to point 2 and retraces to point 3, a trader can buy just above point 3 and the target will be point 4. Point 3 is a higher low pivot point and a higher low is a safe entry. Good rallies start from lows. Buy the first pullback from a new high. There is always a crowd that missed the first boat.

In a downtrend, a higher low will change the short term trend.

Similarly, if the price starts at point 1 and moves down to point 2, and retraces up to point 3, a trader can sell just below point 3. The target will be point 4. Point 3 is a lower high pivot and a safe entry. Good declines start from highs. In an up trend a lower high will change the short term trend to a downtrend.

Reversals build slowly. If the market has been moving down for a long time, the first sharp rise usually finds sellers. Similarly if the market has been moving up for a long time, the first sharp dip usually finds buyers .The market does not turn on a dime.

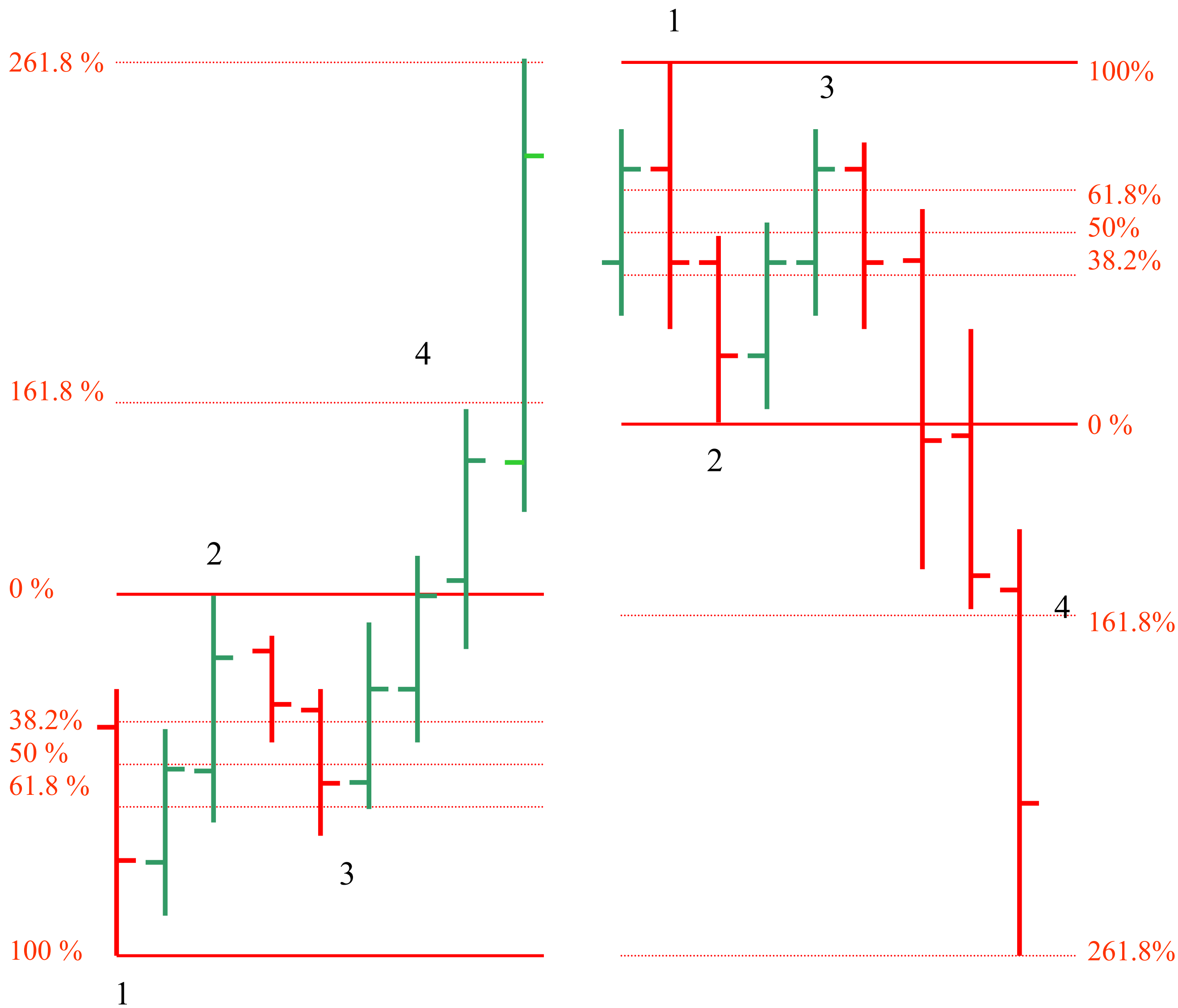
BUY

In the diagram below, for the retracement system, the market turned at point 3(the low of the red bar). The pivot or turning point was confirmed when the green bar to the right of the red bar at point 3 went above the high of the red bar at point 3 by 1pip. You would buy there and place a stop loss just under the low of the red bar (point 3) if the number of pips between your stop loss and your entry point was not too high .i.e. you are not risking too many pips. If you cannot enter the trade within a reasonable distance from your stop loss, you would wait for a better trade.
Our exit point will be at a trendline, pivot line, Fibonacci projection, resistance point, Candlestick reversal pattern or other reversal pattern

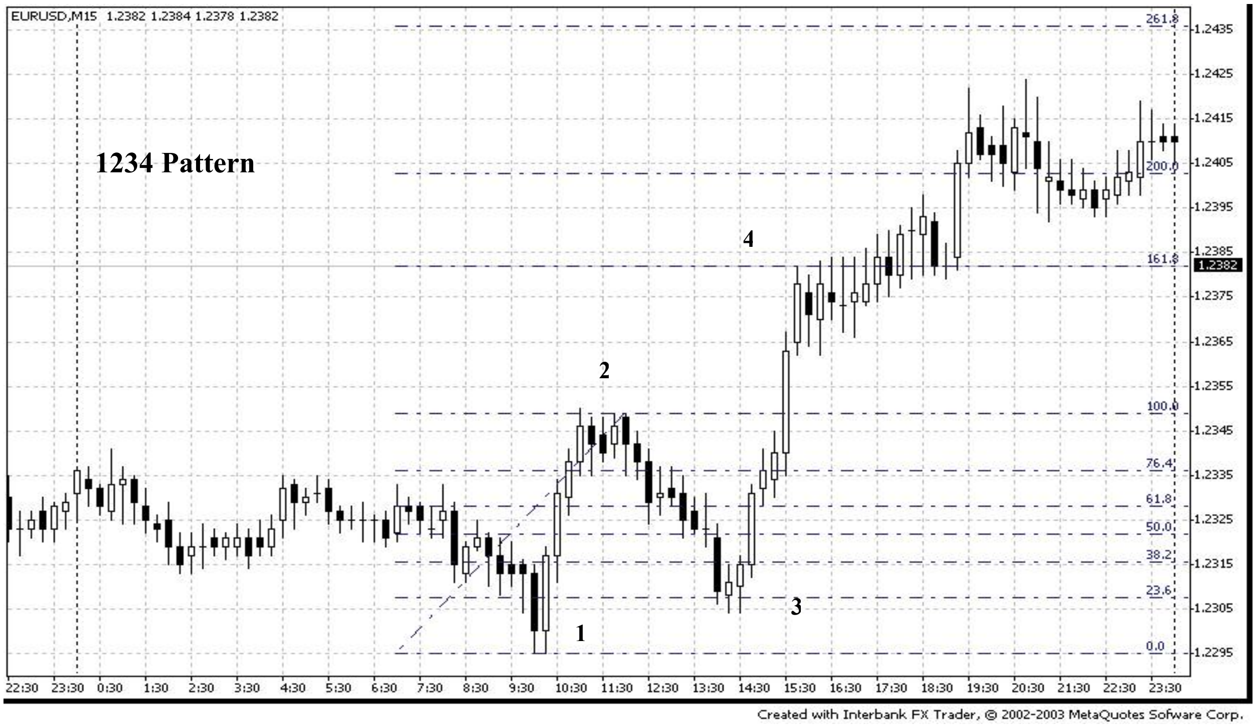
SELL

If you look at right half of the diagram below, you will see another point 3. A lower high pivot is formed in the downtrend when the market retraced to point 3 (the high of the green bar) when the next bar, a red one goes 1 pip below the low of the green bar the pivot or turning point is confirmed so you could sell one pip below the low of that green bar .The stop loss would be 1 or 2 pips above point 3.

Our exit point will be at a trendline, pivot line, Fibonacci projection, support point, Candlestick reversal pattern or other reversal pattern.



When the retracement at 3 from the move 1 to 2
is approximately 61.8% expect the target move to be either
161.8% or 261.8% (Watch for other significant lines as well)


EURUSD,M15 1.2382 1.2384 1.2378 1.2382
1234 Pattern
1
2
3
4
261.8
200.0
161.8
100.0
76.4
61.8
50.0
38.2
23.6
0.0
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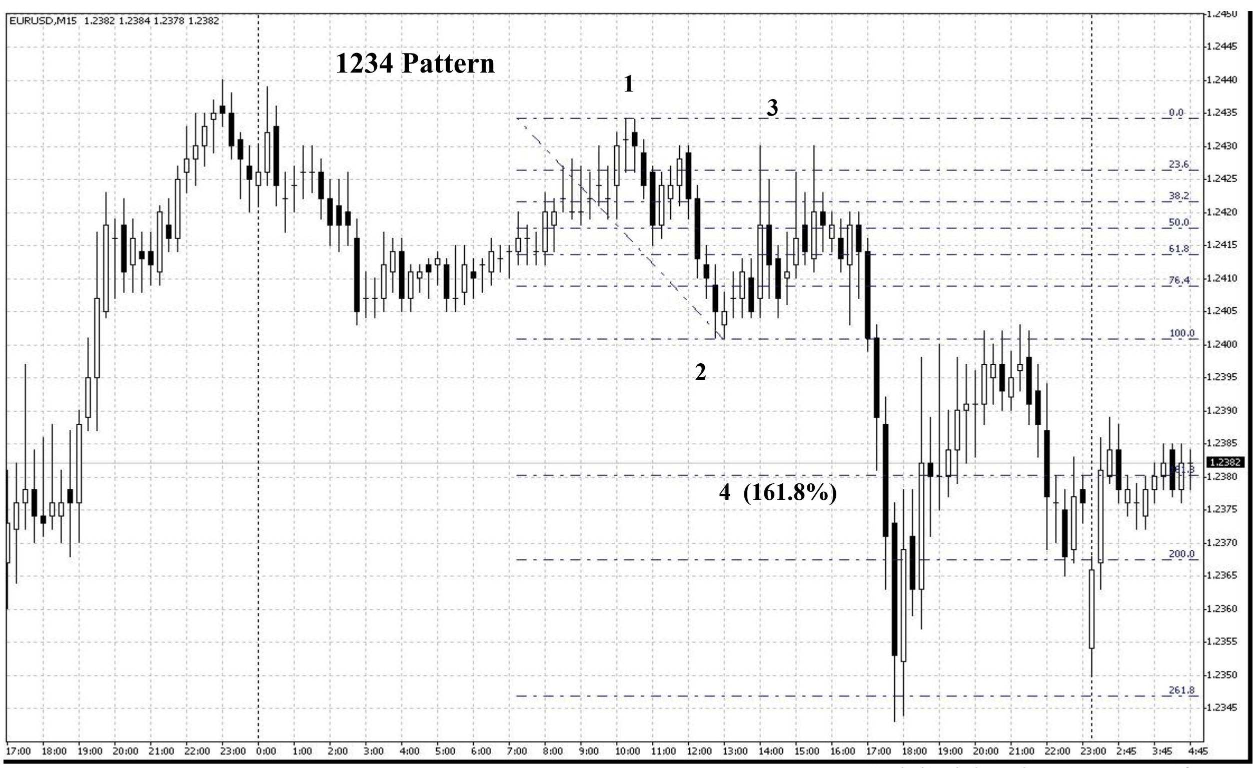
EURUSD,M15 1.2382 1.2384 1.2378 1.2382
1234 Pattern
1
2
3
4 (161.8%)
0.0
23.6
38.2
50.0
61.8
76.4
100.0
200.0
261.8
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When trading the 1234 pattern the 4 point or the 161.8% is typically the target. However if you draw all your lines on the chart (eg. Trendlines, Fibonacci Lines and Pivot Lines) you may find a more profitable target.

Disclaimer

We do not guarantee that any system, including ours, will make everyone rich as there are many factors in trading beyond our control. It is the responsibility of each and every trader to educate themselves and gain sufficient practice before live trading. You must all satisfy yourself that you understand the different systems and methods before using them.

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