



# The Mastery of Technical Analysis

## Transform Your Trading Experience

**83%**

### Success Rate

Achieve success by adhering to the forex signals.

**60+**

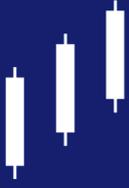
### Years Experience

Experience combined by our Trading Mentors

**100%**

### Real-Time

Forex/ Crypto Signals & Analysis



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# Introduction

Our package is designed so that anyone, regardless of their market experience, can become a professional financial trader with the right work ethic, self-belief, and persistence. Theforexsignals aims to build a relationship with our clients, discussing your medium to long-term personal goals and ambitions, while staying updated on your progress on a weekly to monthly basis to encourage maximum personal growth and potential.

After reading our short story, you'll gain a deeper appreciation for the work ethic, time, and dedication needed to succeed in forex trading. The harsh reality is that 90% of traders lose their hard-earned money, but we are here to help you overcome this statistic and guide you toward financial independence

All our previous mistakes and the traps we fell into, along with every crucial training chapter, are revealed in this guidebook. Unlike most one-dimensional forex teaching packages, all the information in this book is uniquely written by us. We believe that with the right mindset and some mentoring, anyone can become a successful trader, with no limits to their potential.

We have helped many ambitious traders who were struggling and needed fine-tuning to become profitable trading machines. Our package enables traders to avoid market noise and focus on what truly makes money. From now on, emotions must be left behind, and strict discipline is required.

Learning to trade will take you on a journey of self-awareness, as your past influences your present and shapes your future. Every trader will develop bad habits at some point, which can affect their market performance. Choosing a behavior means choosing a consequence, so it's crucial to eliminate bad habits. To succeed, you must transform your bad habits into good ones.

Some may take longer to develop their skills and may need to make more mistakes before becoming the best traders they can be. Persistence is key in this business, and your efforts will be rewarded if you maintain a consistent and dedicated work ethic.

# The Traders Constitution

1. I am a successful, disciplined Forex trader.
2. I enjoy trading to make a profit.
3. I honour the responsibilities I ask of myself and those who are watching and depending on me to be such a trader.
4. I will always continue to educate myself on how the market works.
5. I know how to determine market direction and I have a simple trading methodology that works and consists of an entry and 2 exit strategies. One for profit and one to protect me from taking large losses.
6. My stop loss order is placed to work within my equity management rules and I feel comfortable with that stop loss order when I trade.
7. I have a set of rules that make sense to me that are easy to execute and easy to obey and I obey these rules.
8. I trade for PIPs, not for money.
9. I trade non-emotionally and turn off my profit loss window on my dealing station to support that decision.
10. I always trade with a protective stop.
11. When I find a trade I create a Trading Plan and ensure to trade my plan.
12. If the currency I trade does not meet the criteria of my methodology I will look to trade another currency.
13. If I cannot find a trade then I am patient and will wait until the market meets the criteria of my trade and after each trade I always WIN, either pips or experience.
14. I am always positive when I trade.
15. I will remove the word 'should' from my vocabulary and replace it with 'will' or 'must'.
16. I never take anything personally.
17. I never assume anything.
18. I always use positive words.
19. I always succeed in anything I do through persistence.

## **What is the Foreign Exchange Market?**

If you're not aware, learning the intricacies of the FX/Foreign exchange market without proper guidance can be overwhelming, akin to running into a blazing inferno wearing flammable shorts! (Unless, of course, you have mentoring from Theforexsignals.) Even understanding the terminology can drive you crazy!

Simply put, the forex market is active 24 hours a day, 5 days a week, opening at 10pm on Sunday and closing at 10pm on Friday. Businesses, investors, governments, banks, and retail traders (like yourself) exchange and speculate on currencies through online brokers, using probabilities (fundamental/technical analysis) to predict currency movements up or down.

Currencies are traded in pairs, such as Euro/US Dollar (EUR/USD) or US Dollar/Japanese Yen (USD/JPY). Anyone, anywhere, can profit from accurately predicting the direction of these price fluctuations. The Forex market is the largest and most liquid market globally, with an average daily turnover of \$4.98 trillion, surpassing the stock market which operates in the billions.

Major forex trading centers include London, New York, Zurich, Frankfurt, Hong Kong, Singapore, Paris, and Sydney. Once you've familiarized yourself with a currency pair and your research indicates a profitable position, you can trade that position all day and night if you wish.

## **Forex vs Stocks**

You may be wondering, what distinguishes trading forex cross pair currencies from trading stocks? While the stock market is a traditional investment avenue, it can be time-consuming and daunting due to the sheer number of companies to choose from.

Perfecting a system that yields more than 10-15% annually is challenging, and it's impossible to predict when a company might go bankrupt or fail. Although exceptional gains are possible with stocks, the risk and uncertainty of targeting 20-30% short-term gains are considerable.

In contrast, the Forex market is simpler in nature, though it requires more self-education since fewer TV shows and learning guides focus on FX trading compared to stocks. Notably, there is no central marketplace for forex; trading is conducted 'over the counter,' unlike stocks which are processed through centralized exchanges like the NYSE.

In forex, currency pairs are quoted by major banks and fed through brokers (market middlemen), who provide retail traders (like you) with an average price to buy or sell. Since there is no central marketplace, the broker effectively 'makes the market.' When you buy a currency pair, it is your broker selling it to you, not another trader.

## **History of the Forex Market**

We don't want to bore you, but it's crucial for your forex knowledge to understand the history of forex and its rapid growth.

In historical literature, the Great Depression and the removal of the gold standard in 1931 are pivotal events that severely impacted the foreign exchange market. The gold standard pegged currencies to a specific amount of gold; for instance, one US Dollar could be exchanged for a fixed amount of gold. In the US, \$20.67 would get you an ounce of gold year after year.

From 1931 to 1945, fiat (non-backed paper) money dominated, leading to significant economic imbalances between countries and contributing to the onset of World War I. Between 1931 and 1970, the forex market underwent rapid changes that significantly affected global economies. Although the forex market was formally established in 1971, it remained relatively stable with little speculative activity or investor interest from the Middle Ages through World War I. It wasn't until after World War II that the market became more volatile and speculative activity increased dramatically.

A significant policy change occurred in 1963 when new Federal Reserve notes were issued without any promise to pay in 'lawful money,' and in 1965, silver was completely removed from coins. President Lyndon Johnson signed the Coinage Act of 1965, overturning previous legislation from George Washington's era.

As a result, the currencies of major industrialized nations began to float freely, with their values set by the actively traded forex market. With increased interest from speculators and investors, market liquidity steadily increased, leading to daily price fluctuations. In the early 1980s, the growth of the telecommunication and computer industries spurred a surge in global financial markets.

All markets became accessible to everyone, regardless of time zone or time of day. Trading relied on a combination of technological, communicational, and political advances. Charting had to be done by hand on paper, and all trading orders were executed via telephone.

Forex market transactions increased from about \$68 billion per day in the early 1980s to over \$3 trillion a day in 2006, although it didn't become widely electronically tradable until the 1990s. By 2016, the Forex market was estimated to be turning over more than \$5 trillion daily, growing as more aspiring retail traders discovered its lucrative potential.

Thanks to the Internet and the abundance of brokers worldwide, major modern-day currencies move independently and can be traded by anyone. This has led to increased speculation by banks, hedge funds, brokerage houses, and individuals. Central banks occasionally intervene to adjust currency levels, but today's forex markets are primarily driven by supply and demand.

## **So, Who exactly Trades the Forex Market and Why?**

There are over 100 official currencies globally, but most international forex trades and payments involve the U.S. Dollar, Yen, and Euro. Other commonly traded currencies include the British Pound, Australian Dollar, Swiss Franc, Canadian Dollar, and Swedish Krona. Each currency pair has unique characteristics and fundamentals, attracting specific groups of investors, speculators, and traders. The main participants in the forex market are mentioned below.

### **Companies & Corporations**

A crucial aspect of the forex market is the direct activity from companies that regularly exchange currency to complete business transactions and pay for goods in other countries. For instance, a British laptop manufacturer imports German components and sells the finished products in the U.S. When the sale is finalized, the American dollars received must be converted back to British pounds. Additionally, the British firm needs to exchange pounds for euros to buy the German components. Cross-currency exchange rates significantly affect the profits and margins of corporations engaged in international trade.

### **Banks**

Major banks like Barclays, HSBC, Deutsche Bank, and J.P. Morgan collectively account for approximately 50% of all daily forex transactions and currency volume traded. This sector is referred to as the 'interbank market,' where banks of various sizes exchange substantial sums of currency electronically. Some banks handle billions of dollars in trades daily, often trading on behalf of clients, though frequently done by proprietary traders who use the bank's capital to pursue significant profits.

### **Hedge Funds & Investors**

Following banks, hedge funds, pooled funds, and portfolio managers constitute the second-largest group of forex market participants. Investment managers and hedge funds typically handle significant capital on behalf of various clients and investors. Their earnings come from retaining any profits made beyond their annual percentage target. Approximately 70-90% of all forex transactions are speculative, meaning the institutions involved have no intention of actually holding the currencies. Instead, these transactions are carried out solely to predict price movements and profit from them.

### **Central Banks**

Central banks play a pivotal role in the forex market, being responsible for forex fixing. Their actions are primarily aimed at stabilizing or boosting a nation's economic competitiveness. Through their policies and decisions, central banks influence currency values, particularly by managing inflation, money supply, and interest rates. In times of market instability, their significant foreign exchange reserves may be utilized to stabilize the market, affecting import/export prices, fuel costs, and even daily food prices. During prolonged deflationary periods, a central bank might intentionally devalue its currency by increasing its supply and using it to purchase foreign currency.

## **Advantages of Being A Successful Forex Trader**

While the forex (FX) market is the most lucrative and rewarding to trade due to its high liquidity, beginners should be acutely aware that trading carries significant risks along with potential rewards. Many newcomers to the market mistakenly focus solely on the rewards, ignoring the inherent risks. This mindset is a fast track to losing a substantial portion, if not all, of your account equity. In forex trading, preserving capital is crucial. It's not about how much you make, but how much you can afford to lose. If you're serious about trading forex, it's essential to acknowledge and accept that any trade could result in a loss.

As previously mentioned, the forex market is the largest in the world, with daily trading volumes exceeding \$4 trillion. This immense liquidity allows traders to enter and exit positions instantly with a click of a mouse. The participation of major players such as hedge funds and banks leads to high volatility much of the time.

Volatility offers traders opportunities to profit in various market conditions, presenting numerous high-probability trading scenarios for both long- and short-term strategies. Unlike specific stocks, which may have inherent biases, forex traders can profit from both rising and falling currency pairs, depending on their strategy.

The forex market is open from 10 PM Sunday to 10 PM Friday (GMT), allowing trades to be placed at any time within this window. Unlike the stock market, there are no fixed start times, providing traders with flexibility and freedom. You can trade from anywhere in the world, with the only requirements being a laptop and an internet connection. This flexibility allows for a better work-life balance compared to the traditional 9-to-5 job.

Technological advancements have made the forex market accessible to almost anyone. You can open a trading account with as little as £200 with many retail brokers, who often offer lower transaction fees and commissions compared to stocks or commodities. We'll discuss brokers in more detail shortly.

## **Various Styles of Professional Forex Trading**

First and foremost, it's important to distinguish between a professional forex trader and an amateur. A professional trader, who has earned a place among the top 5%, consistently predicts future price movements, enabling them to make a profit.

The ultimate goal for any forex trader is to focus on high-probability setups, executing trades repeatedly until achieving excellence, and managing potential losses with good risk-to-reward ratios. A professional forex chart technician always strives to become profitable and does not fear being wrong or taking losses.

Amateur traders often fall into the trap of trying to achieve more winning trades, which leads to a dangerous psychological path of ego and self-destruction. In contrast, professional traders focus on consistently placing the odds in their favor and capitalizing on movements from point A to point B. Some traders primarily use fundamental analysis and economic data releases to make a profit.

Every moment in the market is unique, so it's crucial for professional traders to understand that a mechanized or automated trading system won't always work over extended periods due to the market's constant changes.

Reading a price chart is both a unique skill and an art form. Implementing a dynamic strategy is vital; it must adapt to the market's flexibility and provide a high-probability edge.

## **Technical Analysis/Trading**

Forex markets are highly amenable to technical analysis, a style less commonly relied upon in other financial markets like stocks, options, or futures. No stock, options, or futures trader will solely depend on this type of chart analysis. Technical analysis involves studying historical currency price charts to identify patterns and technical signals, allowing traders to make informed decisions about future price movements. Essentially, charts can encapsulate and reflect economic and fundamental variables through price movements.

Various methods are available for conducting technical market analysis. Techniques such as trend lines, support and resistance levels, candlestick patterns, and indicators are popular among traders. This is true for forex as well as stock, commodities, and futures trading. The widespread use of similar tools can turn technical analysis into a self-fulfilling prophecy. For instance, if many traders identify a particular level as a strong buy or sell point, the large volume of similar orders can cause the price to move accordingly. However, the durability of these moves always remains uncertain.

Each trader's approach to technical analysis can be quite different. Traders have unique strategies, indicator setups, and interpretations of key price levels, leading to personal trading systems, some more effective than others. If you examine the strategies of 20 different traders, you might find 20 distinct methods, influenced by their individual trading styles and personalities (e.g., long-term vs. short-term).

Overall, technical analysis is a valuable tool for extracting profits from the market, though it comprises only a fraction of the knowledge required to be a successful trader. Theforexsignals team specializes in this method, considering it the most effective way to predict future market movements. We will explore this topic in greater depth later in the course.

## **Fundamental Analysis/Economic Data Releases**

Fundamental analysis, also known as news trading, is a technique used by traders who primarily rely on economic news releases to determine their directional bias and make trade predictions. Before the widespread availability of online trading platforms, fundamental analysis was considered the most traditional method of investing. The principle behind trading based on fundamental events is that, regardless of short-term fluctuations, the price of a currency will eventually align with the released economic data. Fundamental analysis incorporates factors such as interest rates and economic reports.

Economic data and fundamental events significantly influence the directional bias of a currency pair and drive price movements. However, the market often reacts unpredictably to certain news events. For example, high-impact positive GBP data might be released, yet the GBP/USD currency pair may not move much, leaving traders puzzled.

This confusion brings up the issue of market manipulation. From our experience, a significant portion of major fundamental news releases serves as a pretext for market makers to distort traders' directional biases, causing them to make mistakes and lose money.

## Swing/Trend Trading

Swing trading focuses on executing trades based on medium-term market views, typically holding positions for several days, weeks, or months. These trades are analyzed using higher timeframe charts, such as the 4-hour, daily, weekly, and monthly charts. Swing traders aim to trade with the near-term momentum of the daily chart, usually entering 2 to 4 trades per month. Some consider swing trading a form of fundamental trading, as it often takes several days or weeks for economic fundamentals to impact the market.

Swing trades align with the overall trend but may temporarily move in the opposite direction on lower timeframes like the 4-hour chart. Traders set substantial targets with wide stop losses to allow for market fluctuations, making risk management crucial. Swing trading is ideal for those with limited time for daily chart monitoring, offering a “set and forget” approach. Theforexsignals team specializes in both swing and short term setups, with swing trade targets often ranging from 80 to 250 pips based on technical factors.

This style can be profitable if traders know what to look for and where to enter the market. Trend traders capitalize on significant turning points on higher timeframes, entering at the start of a trend or during a retracement. Understanding trend direction is essential in trading and analysis. In the forex market, traders can profit from both upward and downward movements by buying one currency and selling another (e.g., buying the US Dollar while selling the Japanese Yen).

For example:

**Up Trend:** As the trend moves upwards the US Dollar is appreciating in value.

**Down Trend:** As the trend moves downwards the US Dollar is depreciating in value.

**Sideways Trend:** Prices are moving within a narrow range usually where many traders make mistakes and lose money.

Currencies are neither appreciating nor depreciating. There are popular sayings on Wall Street that traders should heed: “Never go against the trend” and “The trend is your friend.” Keep these phrases in mind. Below are three examples of a trending market. By looking for entries within a trending market, traders have the best chance of making a significant profit on their risk.

Traders who consistently try to trade against the trend by picking market tops and bottoms usually lose money quickly. The three market trend methodologies described above represent the core price structures and rhythms of all markets. To successfully trade the FX market, you must understand these underlying movements and rhythms and recognize future turning points. Markets always move within the framework of an underlying wave (pure price action), whether it is up, down, or sideways.

## Uptrend

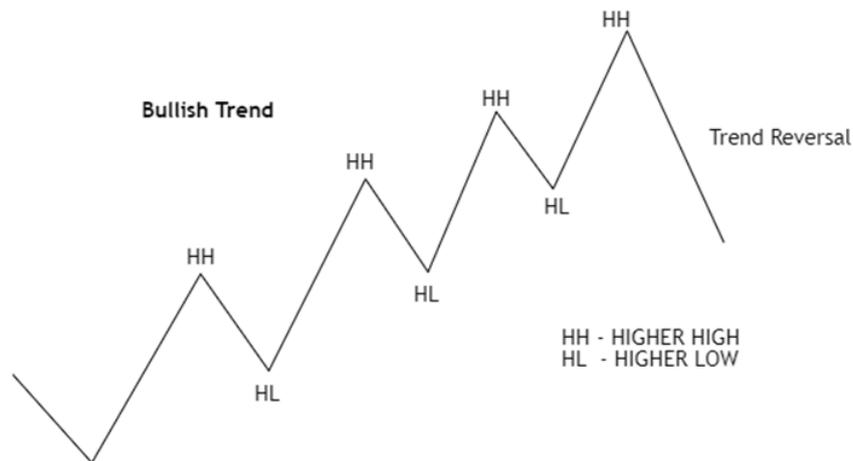
An uptrend is in place when a market is making higher highs and higher lows. Once established, only buy positions are to be taken.



An uptrend (also known as a bull trend) is identified by a series of rallies where each rally/swing exceeds the highest point of the previous rally peak. The decline between rallies ends above the lowest point of the previous decline. A series of successive higher highs and higher lows are shown on the above image.

## Downtrend

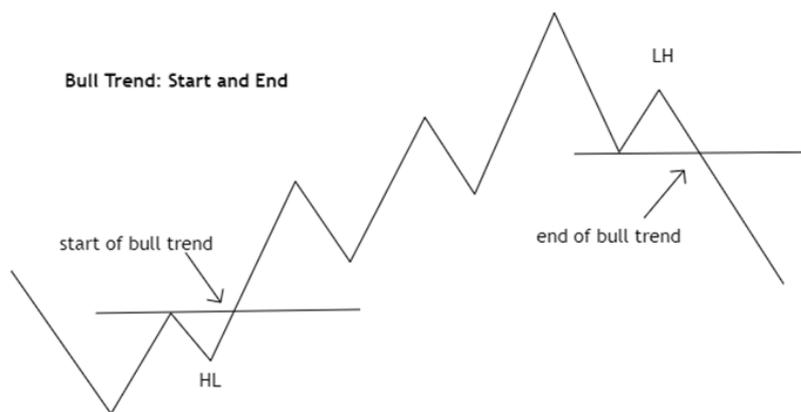
A downtrend is in place when a market is making lower lows and lower highs. Once established, only sell positions are to be taken.



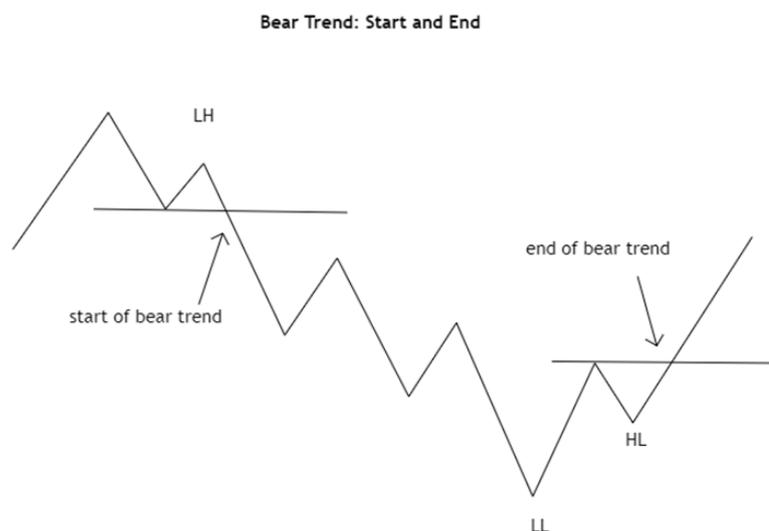
A downtrend, also known as a bear trend, is characterized by a series of rallies where each rally ends lower than the lowest point of the previous decline. The incline between rallies peaks below the highest point of the previous decline. This pattern is depicted by a succession of lower highs and lower lows, as shown in the above image.

## The End of a Trend

The end of a bullish trend is signaled by a lower high (peak), followed by a decline below and straight through the previous low as shown below.

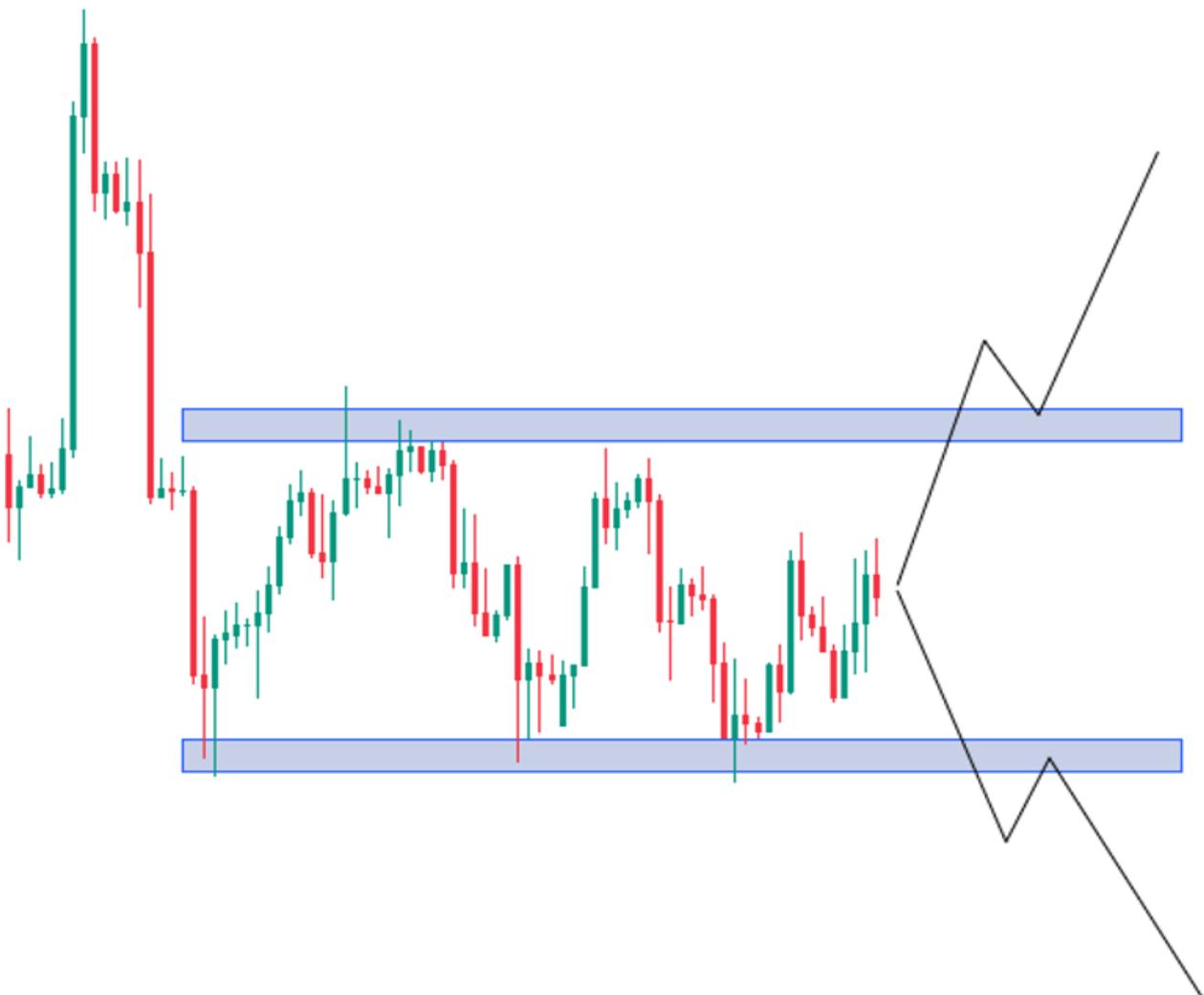


A bear trend either begins at the end of a bull trend or the currency pair enters a counter-trend phase, also known as consolidation, where it ranges for a while. The end of a bull trend is identified when each successive rally fails to surpass the high point of the previous rally. Each decline ends at a lower point than the previous one, forming a series of lower highs and lower lows.



## Sideways Market

Trading a sideways market is also known as range trading. It involves trading a market that is consolidating between obvious support (bottom) and resistance (top) levels (yellow lines). Often resulting in high probability entries with good risk-to-reward ratios, trade signals are given near to these levels where the price is likely to bounce from. Eventually, the market will find its direction and break through one of the key levels. This is displayed on the example below.



### Counter Trend Trading

As you now understand, trends often take pauses, and if you are a skilled trader who can recognize these pauses, you might be able to trade countertrend moves successfully. However, this trading strategy is not recommended until you have mastered trend trading. Countertrend trading carries more risk because market manipulation can create many false tops or bottoms before the actual ones appear.

In reality, many traders don't realize they are trading against the trend until they are already in the trade and managing it. The speed of the uptrend can help traders assess the profit potential and likelihood of success, as aggressive uptrends often experience equally aggressive retracements. Countertrends are typically brief, and their performance depends heavily on the technical timeframe of the chart.

Traders often get trapped and lose money when trying to accurately trade countertrends, such as buying at new lows—also known as bottom fishing. This involves attempting to pick market bottoms by entering at the low of a downtrend, which is extremely risky, similar to selling at new highs. Traditional trading wisdom advises waiting for confirmation that the support level has held and that prices are moving in an uptrend with higher highs and higher lows.

## **Day Trading and Scalping**

Day trading is a popular strategy for traders aiming to profit from daily market movements, often executing 5-10 trades per day. While the market does exhibit average daily moves, this style can encourage bad habits, especially for beginners, primarily due to impatience. Many day traders use high leverage to try and maximize gains from daily market fluctuations.

Day traders who prefer not to hold positions overnight need to be highly disciplined with their stop placements and stick to predetermined targets. The most liquid currency pairs, such as EUR/USD, have an average daily range of about 70-90 pips. This means that market movement can be limited, requiring close monitoring to secure profits.

Professional day traders often follow a routine that is quite different from what beginners might expect. Pro traders typically spend less time in front of their screens. It's advisable for day traders to focus on one high-probability entry for 1-2 currency pairs, set their trades, let them run, and take breaks to avoid fatigue and burnout, which can impair judgment.

Scalping, a subset of day trading, involves executing trades on low timeframes such as 1-minute or 5-minute charts. It aims to "skim" small, regular profits by entering and exiting positions multiple times a day. Scalpers rely on frequent, short-term trades, typically aiming to gain or lose just a few pips. This style often disregards strict stop loss placement, and the risk-reward ratio can be less appealing to experienced traders.

Scalpers typically aim to make 5-10 pips per trade, repeating this process throughout the day. Using high leverage and securing small profits per trade can accumulate significant gains if trades are consistently profitable. Scalping is fast-paced and suits traders who enjoy quick decision-making and focusing on short timeframes. However, if you prefer to analyze and think through each decision, scalping may not be the right fit for you.

## **Monitoring and Analysing the Markets**

After mentally preparing yourself in the morning, whether through exercise or a healthy breakfast, it's time to focus on the market. Start by checking the status of any open trades from the previous day, as overnight market movements might necessitate adjusting stops and updating your trading journal.

If you've incurred losses or locked in profits, update your trading journal with these details. This practice distinguishes professionals from amateurs. Success is measured over a long series of trades, so maintaining an updated record allows you to analyze your performance over time.

Recording your trading results and saving screenshots of your chart analysis is essential for refining your trading business plan. Professional traders know what to look for in their charts because they've mastered one trading strategy at a time. This expertise enables them to recognize trade setups quickly, minimizing time spent at the computer.

Professional traders typically trade only a few markets or currency pairs, understanding that spreading focus too widely increases risk. Concentrating on a select few pairs allows for more efficient and effective analysis, leading to greater success and profitability.

It's advisable to check the market at predefined times throughout the day, building a routine that treats trading as a business rather than a sporadic activity. Pro traders often monitor the market at the start of the London session in the morning and then again at the close of either the New York or European session, depending on their time zone.

The key point is that professionals have dedicated trading times, have mastered their strategy, and know which currency pairs suit them best. This structured routine ensures nothing is left to chance. Once trade selection becomes natural, there is no unnecessary meddling; the professional trader understands that in the market, less is often more.

### Taking Time Away from the Markets

When trading, it's crucial to take breaks from the charts. Professionals understand the importance of stepping away from the markets to unwind, recognizing that excessive chart analysis often does more harm than good. Over-trading and over-analyzing can damage trading accounts more than any other factor.

Pro traders know that after any live trade, whether it's a win or a loss, the best course of action is to take a break from the market. Emotions run highest immediately after a trade closes, so the easiest way to avoid emotional mistakes is to engage in other activities.

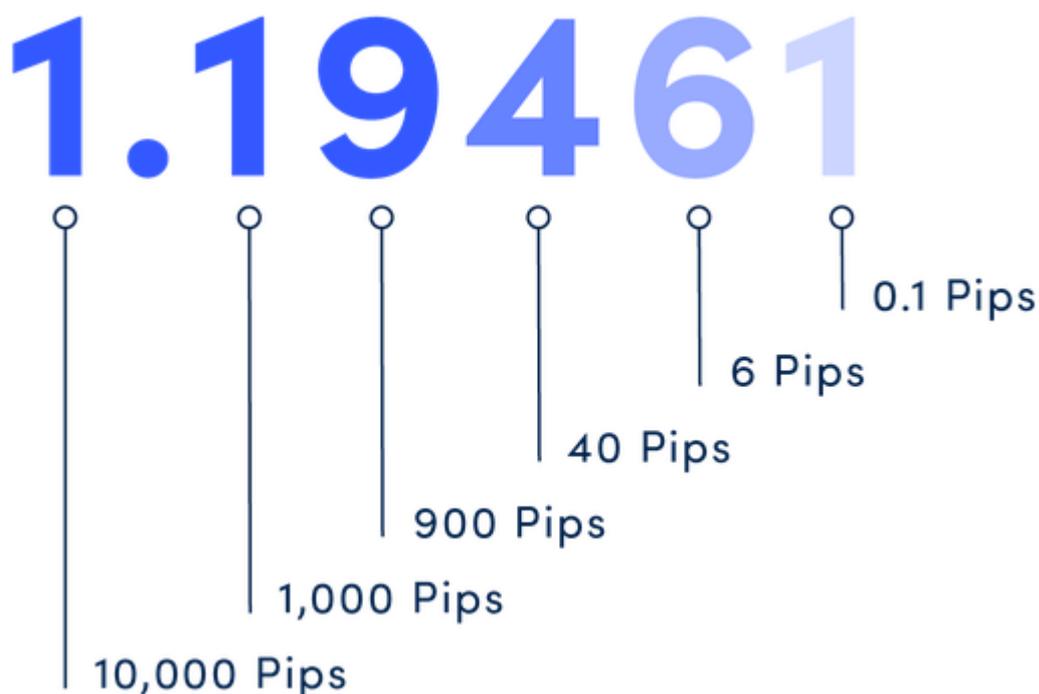
There's no need to stay up all night staring at technical charts. A good night's rest is vital for long-term trading success. Spend most of your trading day doing something enjoyable, such as going to the gym, visiting friends, or engaging in hobbies. Constantly checking trades every few minutes adds unnecessary emotional strain and doesn't improve your chances of making money. Professional traders spend minimal time interacting with the markets daily, understanding that the market is simply a tool.

## Forex Terminology

In the world of forex, there are numerous key terms that you need to understand to grasp the common language used in trading. Many of these terms are unique to the forex community and can be overwhelming at first. The terminology listed below has been broken down to make it easier for you to understand.

### PIP (Percentage In Points)

The smallest increment of price movement a currency can make is known as a pip. All currency pairs are valued and quoted to five decimal places. For example, the bid price quote for EUR/USD might initially display as 1.3700, and a few moments later, it could display as 1.3701.



The difference between the prices 1.3700 and 1.3701 represents an increase of 0.9 pips. The fifth decimal place is not always shown (depending on the broker) and is generally less significant. For example, if the EUR/USD price moves from 1.3700 to 1.3655, the PIP decrease is calculated as 1.3700 minus 1.3655, which equals 45 pips. Pips are crucial for making profits in the market, and the goal is to acquire pips, hold onto them, and repeat the process.

Your trading results and account balance depend on the amount of money you allocate per pip. For instance, if you trade £10 per pip on EUR/USD at 1.3700 and the price rises by 55 pips to 1.3755, your P&L box would show a profit of £550 (55 pips x £10 = £550).

A point, on the other hand, represents 100 pips. For example, if the EUR/USD exchange rate increases by 100 pips from 1.3700 to 1.3800, it has moved up by one point.

## Forex Currency Pair Quotes and Reading Exchange Rates

Forex trading fundamentally involves the simultaneous buying of one currency and selling of another. Currencies are quoted in pairs, such as EUR/USD or GBP/USD. If you place a sell order on the EUR/USD and the euro weakens against the dollar, you would make a profit. This would be reflected on the chart as a decrease in the price, indicating that the US Dollar is strengthening.

In a currency pair, the first currency listed is called the base currency, and the second is the quote or counter currency. Essentially, the base currency is the one being traded. For instance, if you buy EUR/USD, you are buying euros (the base currency) and selling dollars (the quote currency). Conversely, if you sell EUR/USD, you are selling euros (the base currency) and buying dollars (the quote currency).

$$\text{USD/EUR} = 0.8425$$

Base Currency      Quote Currency      Quote

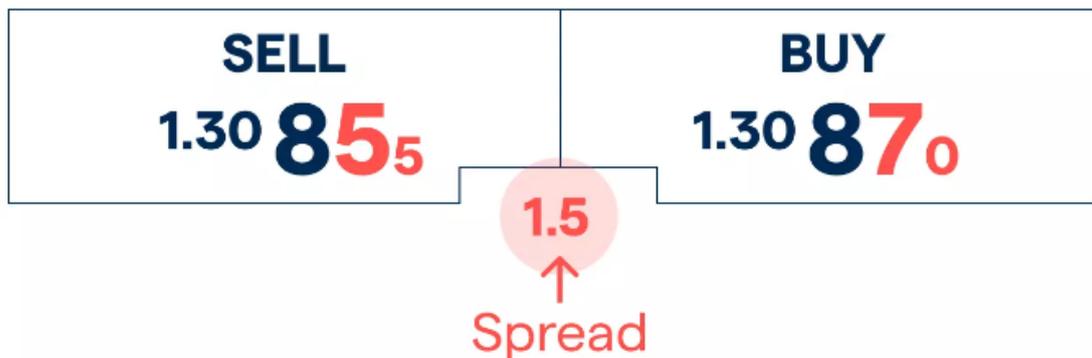
Whether you are buying or selling a currency pair, the transaction always revolves around the first currency listed. For instance, if you intend to buy USD/EUR (US Dollar versus Euro), the exchange rate indicates how much of the quote currency (the second currency) you need to pay to acquire one unit of the base currency (the first currency). In the case of USD/EUR, you would pay the bid price of 0.8425 Euro to purchase 1 US Dollar.

Conversely, if you were to sell the USD/EUR currency pair, the ask price or exchange rate would indicate how much of the quote currency you would receive for selling one unit of the base currency. Using the same example, selling 1 US Dollar would yield 0.8425 Euro. As mentioned earlier, the fundamental principle of forex trading is to execute a buy position if you anticipate the base currency appreciating in value against the quote currency. Conversely, if you expect the base currency to depreciate relative to the quote currency, you would sell the pair.

## Spread

To trade forex, you need access to the market, which is provided by a broker. The broker acts as an intermediary, allowing retail traders to execute trades electronically across a wide range of currency pairs. Brokers typically earn money from their clients, often through commissions.

In forex trading, there are two prices quoted for a currency pair: the ASK price and the BID price. The difference between these two prices is known as the spread, and it represents the broker's commission markup (measured in pips). For example, when buying or going long on a currency pair, your trade will be executed at the ASK price. Conversely, when selling or going short, your trade will be executed at the BID price.



The most liquid and popular currency pairs typically have the lowest spreads, making them cheaper to trade. In contrast, cross currency pairs often have less liquidity and wider spreads, which can be as high as 8 pips or more, depending on your broker. This makes them more expensive to trade. Spread values can fluctuate and widen with increased volatility, particularly around major economic or financial news releases. Instead of charging a commission, banks and brokers primarily earn through the spread on each trade.

## Cross Rate

A cross rate is the exchange rate between two currencies that are not the official currencies of the country where the exchange rate is quoted. For example, if a British newspaper quoted the exchange rate between the Australian dollar and the Japanese yen, it would be classified as a cross rate. If the quoted currencies included the British pound, it would not be considered a cross rate.

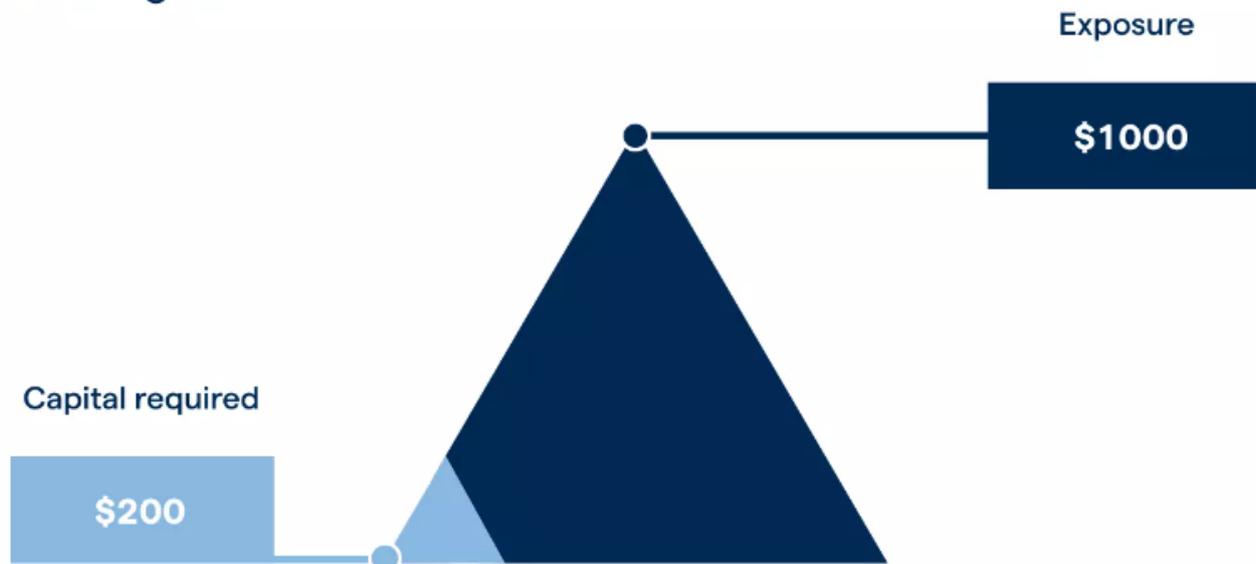
## Leverage

In forex trading, leverage is a crucial concept that significantly impacts your account's buying power. When you open a brokerage account, you choose your leverage, which determines your purchasing power and the margin required for each trade.

Leverage allows you to control larger positions than your actual account balance or margin. For instance, if you have a margin of £2,000 and open a position worth £200,000, you are leveraging your account by 100 times, or 100:1. If you open a £400,000 position, your leverage is 200 times, or 200:1. While high leverage can amplify potential gains, it also magnifies losses if used improperly.

To calculate the leverage on a trading account, divide the total value of your open positions by the total margin balance. For example, if your account has £20,000 in margin and you open two standard lots of EUR/USD (totaling £200,000), your leverage ratio is 10:1 (£200,000 divided by £20,000). If you use leverage of 400:1, you can control a large position (£200,000) with a relatively small amount of capital (£500).

### Leveraged



### Margin

Margin is the amount required to open a new forex position and is not a fee or charge to your account. It represents a portion of your available equity set aside for trading. For example, with a £1,000 margin and a 1% margin requirement, you can trade a position worth up to £100,000. This means you can leverage your account up to 100 times, or use a leverage ratio of 100:1.

Higher leverage increases the margin percentage available in your trading account. If you open too many positions, use large lot sizes, or hold a losing trade that increases in value, your account could fall below the minimum margin requirement needed to keep positions open. This may trigger a 'margin call,' requiring you to deposit additional funds or close positions. If the margin percentage drops significantly (usually below 50%), brokers often close losing trades automatically, which can be distressing, so it's important to trade cautiously.

When using high leverage, it's crucial to carefully manage the number of open positions and consider your account balance. For example, with a 400:1 leverage, trading 2 standard lots (£20 per pip) with a £2,000 account would be too risky. After accounting for margin requirements, you would have only around £1,300 of available equity, leaving you vulnerable to being wiped out if the trade moves against you by approximately 65 pips. Therefore, it's wise to calculate lot sizes based on money management principles, which will be covered later.

### Forex Execution/Order Types

In forex trading, there are several types of trade execution methods available for accessing the market, and most FX brokers offer the same fundamental order types. These orders dictate both how you enter and how you exit the market.

### Market Order

To enter the market at the current live price, you would use a market order. This type of execution is immediate, placing you into the market within milliseconds.

### Limit Order (Sell)

A limit order is used when you want to buy or sell at a specific price. For instance, if EUR/USD is trading at 1.3500 and you want to sell at a higher price, such as 1.3550 (50 pips higher), you would place a SELL LIMIT order at that target price.

Once a sell limit order is placed on the platform, it remains active until you cancel it manually. Referring to our example, if you set a sell limit at 1.3550 for EUR/USD and the price reaches that level, the order will execute immediately. Additionally, you can set stop loss and take profit levels when you place the limit order.

### Limit Order (Buy)

A buy limit order, conversely, is used when you want to purchase a currency pair at a price lower than the current market price. For example, if AUD/USD is trading at 0.9400 and you wish to buy at a lower price, such as 0.9360 (40 pips lower), you would place a buy limit order at that level. As shown below, the stop loss should be set below the buy limit price, while the take profit should be set higher. The rationale behind this order type is that you expect the price to dip before it rises again.

## **Stop Entry Orders (Sell Stop)**

A stop entry order is used to buy above the current market price or sell below it. Unlike a limit order, which is set at a specific price you wish to trade, a stop entry order triggers an execution when the market price reaches your specified level. For instance, if you place a sell stop entry below the current market price, you anticipate that the price will continue to fall, leading to a sell order rather than a buy position.

For example, if GBP/USD is trading at 1.6775 and you expect the price to decline, you would set a sell stop order below the current price. To capture a breakout from a support zone, you might set the sell stop order slightly lower to ensure execution as the price breaks through the support level. Setting a sell stop order at 1.6750 (25 pips lower) will result in a short/sell trade if the price drops through that level.

## **Stop Entry Orders (Buy Stop)**

A buy stop order is used when you want to enter a trade at a price higher than the current market price, with the expectation that the currency pair will continue to rise. For example, if EUR/JPY is trading at 141.00 and you want to buy at 141.50 (50 pips higher), you would set a buy stop order at that level.. The stop loss should be placed at a lower price than the buy stop order, while the take profit should be set at a higher price.

## **Take Profit**

In Forex, the take profit is a predefined price point set by the trader at which they wish to automatically exit a trade with a profit once the price reaches that level. This order specifies the exact rate or number of pips at which the trader wants to take profit. The take profit level is always included in the order details and should be carefully considered before entering a trade. For example, if you execute a buy trade on EUR/USD at 1.3884 with a target of 1.3930 (46 pips), the take profit settings would be displayed accordingly.

## **Stop Loss**

The stop loss is arguably the most crucial element to understand when trading forex, even more important than the take profit. It is designed to limit a trader's loss on a position and is used for both buy/long and sell/short positions. A stop loss order removes emotional decision-making from trading and is particularly useful when a trader is on vacation or unable to monitor their position.

For example, if you execute a sell trade on GBP/USD at 1.6730 and are only willing to lose a maximum of 40 pips, you would set your stop loss at 1.6770 (40 pips higher). For a sell trade, the stop loss is placed at a higher level than the entry price; for a buy trade, it is placed at a lower level than the entry price. The purpose of a stop loss is to automatically close the trade if it moves too far against you, serving as a safety net.

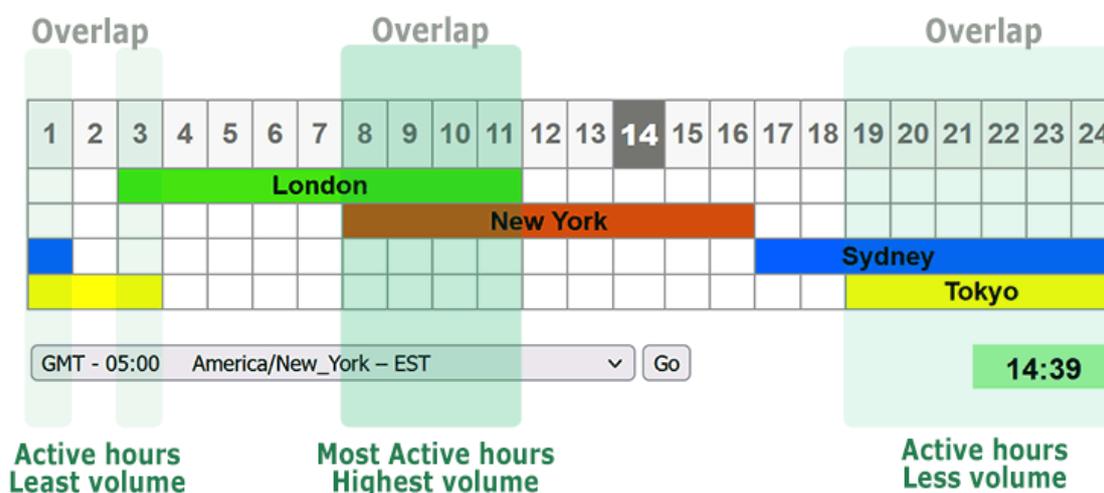
## Buy (Long), Sell (Short)

The fundamental principle of Forex trading is to sell high and buy low. Many beginners often wonder what exactly they are selling if they don't physically own anything. In Forex, when you sell a currency pair, you are actually buying the quote (second) currency and selling the base (first) currency, as previously explained. In contrast, with stocks or commodities, the basic concept involves borrowing the stock or commodity and buying it back later to close the transaction. There is no physical delivery involved.



## Active Market Hours

The Forex market operates 24 hours a day, five days a week. Before exploring the best times to trade, it's essential to understand the structure of a 24-hour day in the Forex market. The market is divided into four major trading sessions: Sydney, Tokyo, London, and New York. Forex signals primarily focus on the London and US sessions due to the higher volatility. The chart below shows the trading hours and market switchover times.



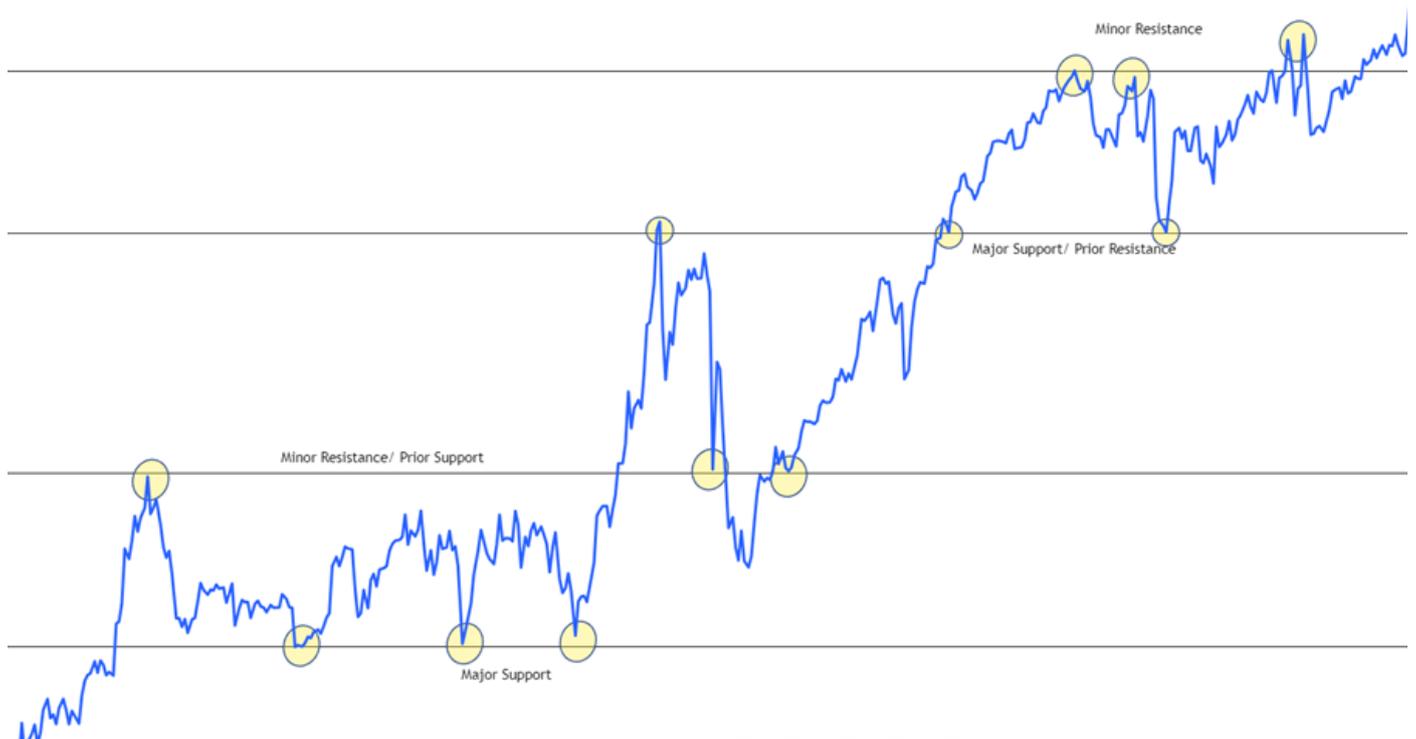
## Introduction to Charting

When studying technical analysis and analyzing the forex market electronically, you will encounter three main types of charts: line charts, bar charts, and candlestick charts. Candlestick charts are preferred as they most efficiently display price dynamics. Let's delve into more detail.

### Line Charts

The line chart is a simplified method for viewing the overall market trend and identifying levels of support and resistance. While it neatly tracks price history, it is not practical for trading as individual price bars are not visible. The line chart is constructed by connecting a line from one period's high price to the next, or from low to low, open to open, or close to close.

The closing price is considered the most significant as it determines the winner between the bulls and bears for that period, making line charts sometimes the most useful type. Below is an example of a line chart on a 4-hour timeframe, demonstrating how price reacts to clear levels of support and resistance. Therefore, it is practical to use a line chart to plot these key levels, which we will explore in more detail later.

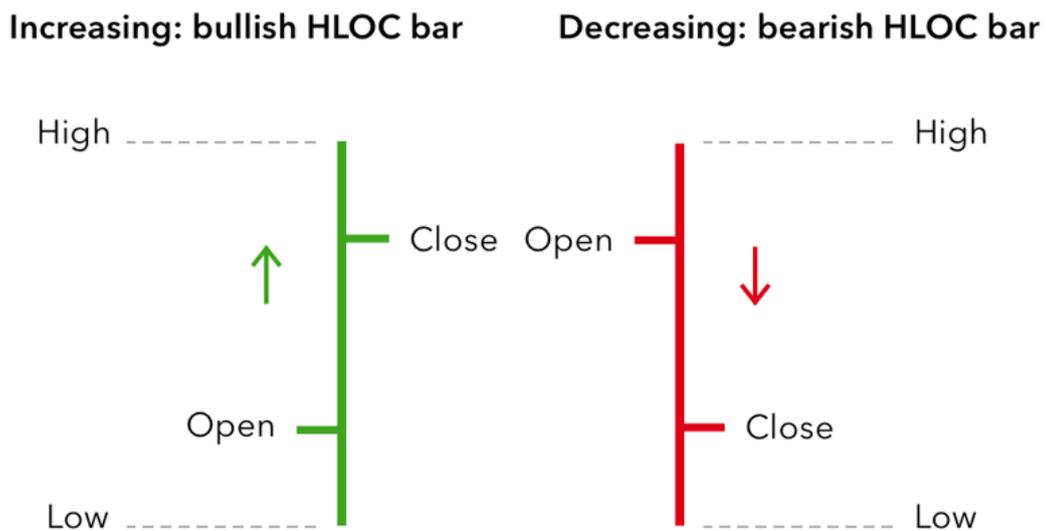


## Bar charts

The bar chart displays individual price bars for the selected time period. For instance, when studying a daily bar timeframe, each bar represents 24 hours of price action, encapsulating the entire day’s movement in one bar. If analyzing a lower timeframe, such as 13 minutes, each bar represents 13 minutes of price action. Essentially, you zoom into the daily bar to view a more detailed historical price movement.

Each bar provides four key pieces of information—open, high, low, and close—which can aid in making more precise trading decisions regarding a currency pair’s next move. The example below illustrates these components. Bar charts present data individually, without connection to neighboring prices, making each price field an isolated data point.

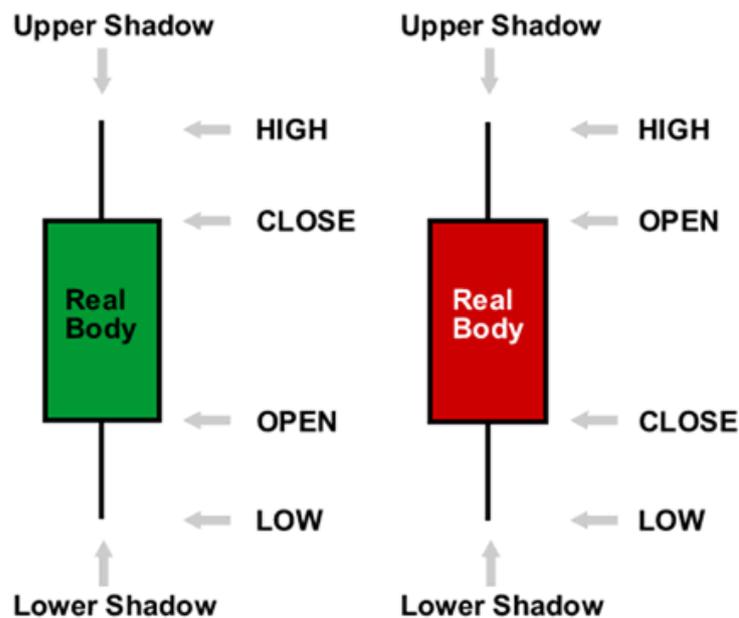
1. Step 1: One vertical rectangle whose upper boundary represents the high for the day and whose lower boundary represents the low for the given period.
2. Step 2: One horizontal rectangle to the left of the high-low rectangle whose central value represents the opening price for the given period.
3. Step 3: One horizontal rectangle to the right of the high-low rectangle whose central value represents the closing price for the given period.



## Candlestick Charts

Candlestick charts are our preferred method for displaying price action due to their clarity. Like bar charts, candlestick charts show the high, low, open, and close for a given time period but in a more visually accessible format. The vertical lines, or “wicks,” represent the high and low of the time period.

The upper wick is known as the “upper shadow,” and the lower wick is called the “lower shadow.” The primary difference between candlestick and bar charts is in how they display the opening and closing prices. The body of the candlestick, also known as the “block,” shows the range between the opening and closing prices, while the wicks indicate the highest and lowest prices reached during the time period, as illustrated below.



If the body is red (as shown on the right-hand candle), it indicates that the price of the currency pair closed lower than it opened, signifying a bearish trend. Conversely, if the body of the candle is green (as shown on the left-hand candle), it indicates that the price of the currency pair closed higher than it opened, signifying a bullish trend. There are numerous candlestick formations that traders need to learn, remember, and understand to improve their market longevity, which we will explore in more detail later.

Candlestick charts are the most popular among the three major chart types available on any trading software. They are the most frequently encountered charts in trading and are particularly suitable for price action strategies.

## Trade Example

Below is a trade example, this is a 4-hour EUR/USD chart (each candlestick represents 4 hour of price action). The candlesticks display a clear Bearish Engulfing at a resistance level and whilst overall the EUR is weaker than the USD, (trending downwards) we would only be looking to sell the EUR/USD in line with the overall market trend. As displayed in the below example, the sell entry will be after the Bearish Engulfing at 1.0808, the target for this trade is 143 pips (1.06650). Stop loss will be in place just above the resistance zone at 60 pips (1.0868).

Let's assume the account size is £5,000. To adhere to proper risk and money management, the recommended risk percentage is 2%, which amounts to £100. A 2% risk is prudent because it would require 50 losing trades to deplete the entire account, provided you maintain discipline.

The total risk of 2% (£100) represents the maximum loss if the trade moves against us. With an entry point at 1.3714 and a stop-loss set 60 pips below the support level at 1.3654 (1.3714 - 60 = 1.3654), we need to calculate the appropriate lot size for the trade (£ per pip).

To determine this, divide the £100 risk amount by the 60-pip stop-loss, resulting in £1.60 per pip. This calculation should be done for each trade to ensure account safety, which will be discussed in more detail in the money management section.

In this scenario, we buy EUR/USD at 1.3714 with a £1.60 per pip position, using a 60-pip stop-loss. The target is 186 pips (1.3900), which offers a risk-reward ratio of 1:3 (60 pips risked for a potential 186-pip gain). The outcome of this trade is shown below.



## **How theforexsignals Trade the Forex market**

You now understand that there are various trading styles you can use to potentially profit from the markets. In our own journey, we experimented with countless trading tools, indicators, automated systems, and more.

Did they work? Not at all! After being repeatedly disappointed and searching for the so-called Holy Grail, we realized we needed to return to the basics and discard the excess baggage we had accumulated. To become a successful trader, it is crucial to focus on price action rather than relying on indicator-based methods and systems that depend on historical data.

At Theforexsignals, we specialize in technical analysis: the study and interpretation of currency price charts. Our daily routine starts with reviewing upcoming fundamental news releases for the day. We then analyze five key currency pairs (AUD/USD, EUR/USD, GBP/USD, EUR/JPY, GBP/AUD), identifying key levels and monitoring for trading setups and confluences that align with the strategies we teach.

We prefer swing trading (medium-term) and some intraday trading, aiming for trades of at least 60 pips. Trades shorter than 50-60 pips are often considered scalping. We previously engaged in extensive scalping but found it required intense focus and long hours in front of the charts. The constant search for small, quick trades can take a toll on your psychology, leading to impatience and errors.

When we focused on scalping shorter time frames (15-min, 5-min charts), our team executed 4-6 trades daily. In retrospect, this was quite excessive, not to mention the substantial commissions paid to brokers and the nearly 6 hours spent at the screens each day. Medium-term swing trading, in contrast, offers more freedom and requires only 1-2 hours of daily computer time for chart analysis and trade monitoring.

The trading style now employed by Theforexsignals is one of professionalism, requiring just 8-10 price action trades per week to accumulate a sufficient number of pips for a fulfilling life. This approach is less stressful and less taxing on our health.

## Lesson 1 : What is Forex?

With 60+ years of combined experience, Theforexsignals team aims to share this knowledge with you effectively. We bring the practical and psychological insights gained from our challenges to help you avoid the same pitfalls.

Each trading day, we combine our expertise to analyze charts, focusing on five currency pairs. We record our analysis and upload it to our members' area for subscribers and course students to use effectively. We take pride in selecting the best trade setups, prioritizing pips over profits.

We plan our stop loss and targets before execution and often trail the stop once in profit to reduce stress and secure gains. We monitor trades from our mobile phones while managing other jobs and hobbies throughout the day. We hope you find the rest of the course enjoyable and informative!

## **Fundamentals. What are They And How do You Trade Them?**

Understanding Fundamentals in the markets is very important.

Fundamentals refer to the essential economic data released daily, which significantly impacts market movements. This data includes reports from institutions like the Bank of England on inflation, job numbers, the Federal Reserve's minutes, US Consumer Price Index (CPI), manufacturing numbers, and Eurozone interest rates. Collectively known as macroeconomic data, these releases influence both long-term and short-term price actions.

Fundamental announcements are crucial in trading Forex, stocks, and other markets. They drive market movements, create substantial liquidity in short periods, and introduce volatility that traders can exploit. The prevailing belief is that "markets follow economic numbers."

In Forex trading, fundamentals involve comparing the economic performance of one country against another, such as the USA versus Great Britain, Australia versus Japan, or Switzerland versus the USA.

Let's delve into the key macroeconomic factors that significantly impact markets and specific currency pairs.

**Interest Rates:** Higher interest rates tend to increase a currency's value by attracting more investment due to the more favorable rate environment. However, a stronger currency can pose challenges, such as making exports more expensive and increasing borrowing costs.

## Lesson 2 : Fundamentals

**Lower Interest Rates:** When interest rates are low, a currency tends to lose value due to reduced investment driven by lower returns. Interest rates are fundamental in directing money flow, which is the backbone of the Forex markets.

**Manufacturing Data:** This is a crucial indicator for industrialized countries. Higher-than-expected manufacturing numbers are considered bullish, while lower-than-expected numbers are bearish.

**Employment Data:** High employment figures are bullish for a currency, signaling economic strength, whereas low employment figures are bearish.

**Inflation and Consumer Confidence:** Higher inflation and consumer confidence indicate positive economic conditions and are bullish for a currency. Conversely, lower inflation and consumer confidence are bearish.

**Gross Domestic Product (GDP):** While GDP is often seen as a lagging indicator, a higher GDP encourages bullish price action, and a lower GDP is bearish.

As a Forex trader, your first task each day should be to check the economic calendar for fundamental announcements that could impact the markets and the currency pairs you plan to trade.

## Correlations and Market Participants

### List of Key Countries and Financial Institutions

**Countries:** United Kingdom, United States of America, Australia, China, Japan, Switzerland, Russia, and Brazil.

### Central Banks and Financial Institutions:

- Federal Reserve (FED)
- European Central Bank (ECB)
- International Monetary Fund (IMF)
- Bank of England (BOE)
- Reserve Bank of Australia (RBA)
- Bank of Japan (BOJ)
- People's Bank of China (PBOC)

Additionally, important decisions are made by rating agencies such as Standard & Poor's (S&P), Moody's, and Fitch Ratings.

## **The Psychology of Trading - The Fine Line between Success and Failure**

TheForexSignals has been in the trading industry long enough to understand how most traders think and react. Many traders share common thought patterns and emotions when analyzing charts. A key lesson lies in recognizing the difference between the mindset of losing traders and winning traders. In the forex market, smart thinking and discipline are even more crucial than a trader's strategy or skill set.

Success in the forex market is not solely dependent on a system or strategy. Consistency and profitability are determined by your mindset.

However, many Forex websites and businesses that sell indicator- or robot-based trading systems won't tell you this. They want you to believe that their product or service alone can make you money. If there truly were a money-making robot or indicator, it would cost billions, not a few hundred pounds or dollars.

We prefer to tell the truth: having an effective yet simple trading strategy is just one piece of the puzzle. Balancing your emotions and managing your mental processes are vital. Without this, you will struggle to consistently make money in the market over the long term.

### **Why the Majority of Traders will Continue to Lose**

It's true that most people who attempt to trade forex end up losing money. The rational explanation for this is that many people mistakenly view the market as a get-rich-quick scheme. They enter with unrealistic expectations, thinking they can quit their jobs after a week or month of trading or turn a small sum, like £1,000 or \$1,000, into £100,000 or \$100,000 in a few months. This mentality is fundamentally flawed. The foreign exchange market is an investment, not a gamble.

Such unrealistic expectations will work against you, fostering a mindset that can destroy your account. You'll feel pressured to make money quickly, which leads to irrational decisions. Trading requires absolute clarity and a nearly robotic mindset, free from stress and external distractions, whether financial or personal.

When you trade with the pressure to make money, you will inevitably trade emotionally, which is the fastest way to lose your money. Before you start trading, you must be financially prepared to handle losses. Losses are part of the business, which, despite its challenges, can be highly rewarding. Do not trade if a loss will drive you crazy; trading is not for everyone, especially not for the faint-hearted.

Neuroscientists often say, "Neurons that fire together, wire together," meaning that repeated thoughts and actions reshape the neural pathways in your brain over time. Where you direct your attention defines you neurologically, so what you think about, practice, and believe shapes your neural structure. Remember, practice makes perfect!

## **A Range of Emotions which can Impact your Trading**

If you're still unsure about which emotions you need to control, let's go over the top few that can make the difference between becoming a profitable trader and a losing trader.

### **Doubt**

One of the worst things a trader can do is doubt themselves. Doubt leads to questioning other traders or, even worse, diving into online forums and websites in search of answers that don't exist. Always remember that your opinion is what matters most. Trust your own judgment, stick with it, and be confident in it.

Seeking direction for a currency pair from online traders is a surefire way to damage your account. Some traders may be targeting 5 pips while you're looking for 50. Others may have vastly different levels of experience and skill in market analysis. Self-doubt and desperation will lead you to rely on others' opinions over your own. Throughout your journey, trust your judgment—it will improve with experience and your efforts on the charts.

Doubt can arise after a few consecutive losing trades, making you feel like you don't have what it takes. This is incorrect; it's all psychological. "He who says he can and he who says he can't are both usually right." You enrolled in theForexSignals course because you believe and know you can succeed, so eliminate the doubt! Whenever you feel overwhelmed, take a deep breath and step away from the charts. Return only when you feel relaxed. You can control doubt with experience. How you feel in your first trading month will be vastly different from your third or fourth month. Experience is paramount. No single trader becomes profitable in the early stages of trading. It is not a smooth journey; you will face numerous learning curves, which will shape you into a successful trader over time.

### Fear

It can be easy to become fearful of the market, especially for beginner traders who haven't yet developed a trading plan or an effective strategy, including price action methodologies. In such cases, they should avoid trading with real accounts. Fear can also stem from a string of losses, leading to a loss of confidence. Even with an 80% winning accuracy rate, you can still experience 20 losses out of 100 trades. Stay calm and keep moving forward.

Trading with high risk can amplify fear of losing. The solution is simple: only risk what you are comfortable losing. If a potential loss would be too painful, reduce your lot size and risk. Fear can paralyze your nervous system, limiting your trading abilities and causing you to miss good market opportunities because you are stuck in fear.

Fear is a natural response to a loss, regardless of your wealth—no one enjoys losing money. Remind yourself that you are in this for the long term and that the losses you incur are akin to business overheads. Most businesses are not profitable for years, but as a forex trader, you have the opportunity to become profitable within a few months.

Success cannot be forced. Do not rush the process. You must navigate the market waves patiently, and eventually, your fear will diminish. Staying balanced and in control is crucial in combating fear. Sitting in front of your screen after a loss can be destructive. Learn to leave your emotions aside. Once a trade concludes, whether it is a win or a loss, a true trader steps away, gathers their thoughts, and prepares to trade another day.

### Revenge

Revenge is an emotion as old as humanity itself. After a losing trade, it's natural to feel revengeful. To avoid this, understand that there is no such thing as a "sure thing" trade. Any trade can turn into a loss at any moment, and this is not your fault. External factors, like natural disasters, can trigger these losses. A wise trader never puts all their eggs in one basket. Jumping into another trade immediately after a loss, driven by the wrong reasons, can lead to even greater losses and more emotional turmoil. Revenge trading is harmful to both your emotions and your account. Stay mature, focus on your long-term goals, and accept losses as part of the process.

Revenge stems from deep-seated emotions triggered by loss, anger, or jealousy, whether in personal relationships, friendships, or the workplace. These emotions often lead to negative consequences, such as fallouts and poor decisions. However, remember that the financial markets are indifferent. Revenge-driven actions and thoughts can deplete your account and leave you frustrated.

Being angry at your screen, phone, or yourself won't help. Remember that 90% of traders experience losses daily, so you're not alone. With persistence and hard work, you can become a successful trader while others struggle. Keep revenge and spite out of your trading mindset. A balanced internal reality leads to a balanced external reality.

### Greed

The destructive impact of greed often occurs when traders become overconfident and euphoric. They may then completely overlook the risks involved in the market and forget that ANY TRADE CAN LOSE—let's emphasize this again: ANY TRADE CAN LOSE!

You must condition your subconscious to understand that trading is a long-term game based on probabilities. With a solid risk-to-reward ratio and disciplined adherence to your trading strategy, you can achieve long-term profitability. However, be prepared for the possibility that even with an 80% success rate, you could experience 20 consecutive losses out of 100 trades. It's impossible to predict which trades will succeed and which will fail.

Just as a Toyota takes 13 hours to build and a Rolls-Royce takes 6 months, good things, including profitable forex returns, take time and patience!

### A Traders Mindset

Developing a strong trading mindset is only half the battle; the other half is maintaining it. You must accept that the market operates in its own way and that not every day will be a suitable trading day for you.

Choose your trades carefully, take pride in your analysis, and stay true to the principles of forex trading. Often, the hardest challenge is managing your own mindset. Once you overcome this obstacle, you'll pave the way for long-term success.

Keep your mind clear and focused. After long or stressful hours in front of the screen, your mind might perceive trade opportunities that don't actually exist. Trading should be calm and relaxed. Stay balanced, whether you're dealing with a winning trade or a losing one.

### Mastering Your Personal Trading Strategy

Every trader has their own unique traits, so strategies that work well for others may not always be suitable for you. For example, patient traders might excel with long-term strategies, while those who prefer quick, in-and-out trades are better suited for intraday trading. Regardless of your trading style, practice it diligently and refine it into a personal craft, much like you would with any other skill.

To improve as a trader, focus on mastering a few key techniques. Identify your preferred setups, recognize patterns, and train your eyes to spot what you're accustomed to. Only enter trades that align with your chosen price action methodologies and trading plan.

Sometimes, trading requires the mindset and emotions of a robot: knowing your strategy inside out, with no doubts, and making decisions based solely on risk, reward, and strategy. Leave your emotions at the door and focus on executing your plan with discipline.

## **Managing Risk Efficiently**

Failing to manage your risk on EVERY trade allows emotions to take control of your mental state. Once you start down the slippery slope of emotional Forex trading, it can be very difficult to stop or even realize that you are trading emotionally. The focus in Forex trading is more on managing losses than on chasing wins.

To significantly reduce the risk of becoming an overly-emotional trader, only risk an amount per trade that you are completely comfortable losing. Always expect the possibility of a loss with each trade. This way, if it happens, you will be prepared and can simply move on.

## **You Need To Become A Strict and Organized Trader**

Clarity and organization are crucial for your trading success. By organization, we mean maintaining a trading plan and a trading journal, which you should use consistently. Forex trading is a business, not a gamble, so approach each market interaction with calm and calculation to keep emotional trading issues under control.

Document every trade setup meticulously. We recommend taking screenshots of each chart setup and noting the reasons behind your trade decisions. For instance: "I observed a bearish engulfing candle forming at a major resistance level. The moving averages crossed over, and the price eventually broke the trend line. I placed a sell order with a 40-pip stop loss and an 80-pip target, resulting in a risk/reward ratio of 1:2." Then, record the outcome of the trade and review it with the Theforexsignals team.

### Various Mistakes & Traps in Trading

Here are some common mistakes and “traps” that trouble 99% of traders at some point. Let’s address the frequent errors that might prevent you from making money in the market.

At Theforexsignals, we openly discuss the mistakes and pitfalls we encountered when we first started trading. Some of these errors were repeated multiple times. However, our experiences and challenges have given us the confidence to offer you the best trading course, focusing not only on what you should do but also on the mistakes and traps you should avoid in the FX market.

When we began our self-taught forex journey, we were duped by a Nigerian internet café scam within the first few weeks! We also encountered false hope systems sold on eBay that promised FX guidance and substantial profits. You might even meet people who claim to have the secret to forex success but don’t have any real expertise. Ignore these distractions and trust that with proper education and self-belief, you can succeed on your own. Stay focused, and don’t let anyone’s doubts deter you.

There is a crucial difference between losing money due to poor trading decisions and losing money because of falling into avoidable traps.

**Losing Trades:** Losses are an inherent part of trading—it’s simply part of the job! Whether you’re trading from a bedroom or working on Wall Street, all traders face losses. Understand that even with an 80% success rate, you can still experience 20 consecutive losses out of 100 trades. Stay grounded, and maintain tight, safe, and disciplined risk management.

**Losing Money:** Unfortunately, 90% of traders who experience losses often lose all their confidence and doubt their abilities. This can lead them to purchase ineffective forex services or allow others to trade on their behalf out of sheer desperation. Be wary of those who, despite lacking any real expertise, claim they can help if you pay them. Don’t be misled by desperation; your own determination and drive are your most valuable assets.

## Let's go through Some Of the Main Ways in which People unfortunately End Up Being Unsuccessful

Chart Crazy: Forex trading can be overwhelming with its numerous fundamental impacts, trading systems, and a multitude of software, including indicators and templates. As a trader, you need to sift through these variables and develop a trading strategy that is both simple and effective. Be cautious: this can be particularly challenging for novice traders, who are often tempted by various forex “services” and “products.” Whether it’s an automated trading system or a sophisticated indicator, remember that simplicity is key. If trading were as easy as just following an arrow on your screen, everyone would be successful!

Many traders believe that “more is better,” but in reality, “more” often leads to worse outcomes. Spending hours analyzing Forex news reports or numerous indicators on your charts can be counterproductive and just strain your eyes!

Our trading philosophy is that all market variables affecting price movement are already reflected in the price action on the chart. Therefore, investing time and money in trading software, systems, or endless news analysis is largely unnecessary.

Additionally, traders can become overwhelmed by trying to analyze too many market factors. This not only leads to mental exhaustion but can also result in emotional trading mistakes. Remember, a single careless error can wipe out your entire account—this is what is known as analysis paralysis!



### Over-Trading

Most traders struggle to make money and sustain long-term success for one simple reason: they trade too frequently. Many traders perform well on demo accounts, but when they start trading with real money, things often go wrong.

This happens because demo trading involves no real emotional risk—there's no real money on the line. This highlights that emotion is the primary destroyer of trading accounts. Traders who over-trade are driven by emotion rather than strategy. Therefore, maintaining an emotionless mindset and adopting a robotic approach to trading, where decisions are based purely on technical skill rather than feelings, is essential.

To succeed, you need a clear idea of what you're looking for before executing a trade. Over-trading not only leads to higher broker spreads or commission costs but also accelerates losses, as it often turns into gambling rather than disciplined trading. Approach the market with calm and precision, rather than an impulsive, gambling mentality, which is common among many traders.

**Failing to Apply Risk-Reward and Money Management Correctly:** Proper risk management is crucial for achieving success, security, and longevity in trading. It involves managing your risk per trade at a level you can comfortably accept. Many traders ignore the reality that any trade can result in a loss. If you acknowledge that any trade could be a loss, why would you risk more than you're willing to lose?

Unfortunately, traders frequently make the mistake of risking too much per trade, which often leads to margin calls. Just one over-leveraged trade can trigger a series of emotional decisions, quickly eroding your trading account.

### Advanced

No matter how skilled you are or how well you can spot trading opportunities, if your risk-reward ratio and money management aren't up to par, long-term profitability in the forex market will remain elusive. Your goal should be to target more pips than you risk. While this might seem like basic knowledge, even experienced traders can make mistakes in this area. Typically, these errors stem from inadequate risk-reward strategies or poor money management practices for two main reasons.

## Rushing

When a trader feels they are “missing out” on an opportunity, they often skip the crucial step of evaluating the trade’s risk-to-reward ratio. Along with this lapse in judgment, they may also overlook volume calculations relative to their account size and stop-loss values. This can lead to placing themselves in the market with excessive leverage on a trade that doesn’t even make sense. It’s like entering a competition with a £100 entry fee when the prize is only £50. This impulsive behavior is known as: Fear of Missing Out (FOMO).

## Chasing Money not PIPs

A trader who treats the market like a gambler—one who is addicted and makes irrational decisions—focuses on the money rather than the PIPs. This mindset will never turn you into a successful forex trader. Remember, forex trading is a business, not a casino.

When your focus is solely on the money, risk-reward ratios become irrelevant, and you’ll be preoccupied with “ifs” and “maybes.” You might believe that trading is as simple as using high lot sizes and exiting after a few positive PIPs. Instead, measure your trade outcomes in PIPs while maintaining consistent trade sizes and volumes (adjusted for the setup and timeframe). This approach helps you stay emotionally detached. Your trading plan should include PIP targets, PIP risk, and PIP counts.



### No Trading Plan

One of the most common mistakes forex traders make is attempting to trade without a solid trading plan. Many traders think they'll create a plan "later" when they start making money or believe they don't need one until their luck runs out and their account suffers.

It's crucial to maintain a forex trading plan that outlines all your actions, trades, and overall trading strategy. This practice helps keep your emotions and trading decisions separate.

Every trader, especially beginners, needs a forex trading plan to solidify their strategy and provide a clear guide for their trades. A mental plan is insufficient; you must write it out and adhere to it every trading day. This approach not only keeps you focused and minimizes mistakes but also helps you build a portfolio of your trades. Reviewing this portfolio allows you to assess your strengths and identify areas for improvement, ensuring continuous progress.

### Jumping from Demo to Real

We understand the excitement of transitioning from a successful demo account to trading real money. However, the reality is that until you have thoroughly mastered your forex trading strategy, such as price action trading, you should not trade with real funds. By mastering the strategy and yourself, we mean achieving consistent success on a demo account for 3 to 6 months (or longer) before moving to a live account.

Don't treat a demo account as a game. Trading with real money is vastly different due to the emotional stakes involved. You should only switch to a real account after demonstrating consistent success on a demo account for a significant period. Remember, the market isn't going anywhere—take your time to prepare.

Moreover, avoid approaching trading as a gamble. If that's your mindset, you'd have better luck at a casino. Successful long-term traders do not gamble; they stay calm, follow a structured trading plan, keep a trading journal, and understand their edge and when to use it. If you're committed to long-term success, as we hope all our clients are, take the time to revise and refine your approach. The market will still be here, even ten years from now.

### Over confidence

When traders experience a series of consecutive wins, they may begin to feel invincible, as if they've mastered the market. While it's natural to feel proud of successful trades, it's crucial to stay grounded and remember that any trade can result in a loss at any time. Even if you're excelling in both technical and fundamental analysis, the market can still surprise you. Always stay prepared, as the market is indifferent to your emotions or account balance.

No matter how many winning trades you have, it's essential to remain humble and disciplined. Resist the urge to increase your trade volume simply because you feel unbeatable. Only consider increasing your trading size when you have substantially more capital; otherwise, doing so can lead to emotional trading and larger losses. Maintain a clear distinction between confidence and arrogance, staying on the side of disciplined, profitable trading.

Confidence is vital for trading success as it aligns you with your judgment and fosters a positive mindset. Before executing any trade, you must have faith in your strategy and technical analysis. Avoid letting arrogance influence your trading, as it can distort your mindset and lead you to believe that every trade will be profitable. As previously mentioned, 80% of trading success is mental. Be cautious of the tendency to boast about your gains to friends, family, or peers, as this can lead to chasing larger profits for validation rather than sound trading decisions. This behavior can trap you in a ruthless market, potentially leading to significant losses.

## No Risk-Reward Plan

Every trade comes with a certain level of risk, and it's crucial to understand this risk before entering a trade. Managing risk is a fundamental aspect of trading, as knowing the risk involved helps safeguard your capital.

The risk-to-reward ratio is a powerful tool for managing risk and assessing the potential risk of a trade. This ratio compares the amount you are risking with the potential reward or profit. Although this concept may seem straightforward, many traders overlook this step, leading to significant losses and minimal gains.

## How to Determine the Risk-Reward Ratio

The first and most fundamental step is to decide the amount of risk you are willing to take. This should be based on your account size, and we strongly recommend risking between 1-3% of your account balance.

For instance, if your account is £10,000, your risk per trade should not exceed £100-£300.

Here's an example:

- With an account balance of £1,000, a 3% risk equates to £30. A good risk-to-reward ratio would be 1:3, where you risk 3% to potentially gain 9%.
- For this account size, risking £30 to potentially gain £90 is appropriate. If your trade setup has a 30 PIP stop loss, you can calculate the lot size as follows: £30 (risk amount) divided by 30 (stop loss) = £1 per pip. Thus, £1 per pip is the correct lot size to stay within your risk parameters.

Another example:

- If your account balance is £5,690 and you want to risk 2% this time, the risk amount is £113.80. If the required stop loss is 55 PIPs, you calculate the lot size by dividing £113.80 (risk amount) by 55 (stop loss), which equals £2.06 per pip.



## What is a Good Ratio?

The minimum risk-reward ratio you should aim for in a trade is 1:1, though a higher ratio is preferable. For both novice and experienced traders, acceptable ratios are 1:1, 1:2, and 1:3.

Never enter a trade with a risk-reward ratio less than 1:1, as the potential reward does not justify the risk.

Experienced traders who are skilled at identifying optimal setups might target trades with ratios of 1:5 or higher. While this requires patience and waiting for the right opportunity, the potential reward can be significant.

A higher risk-reward ratio is advantageous because it reduces the frequency of trades needed and limits your exposure to market risk. Achieving a higher risk-reward ratio is crucial for growing your account, as a lower ratio can lead to frequent losses.

Although waiting for a trade with a favorable risk-reward ratio might take time, the patience is worth it. You will have a clear understanding of both your risk and potential profit, ensuring that the trade justifies your investment.

In other words, if you're looking to gamble, go to a casino. If you want to trade, develop discipline, master good risk-reward practices, and only enter trades that make sense both mentally and mathematically.

Here are a few examples of risk-reward ratios:

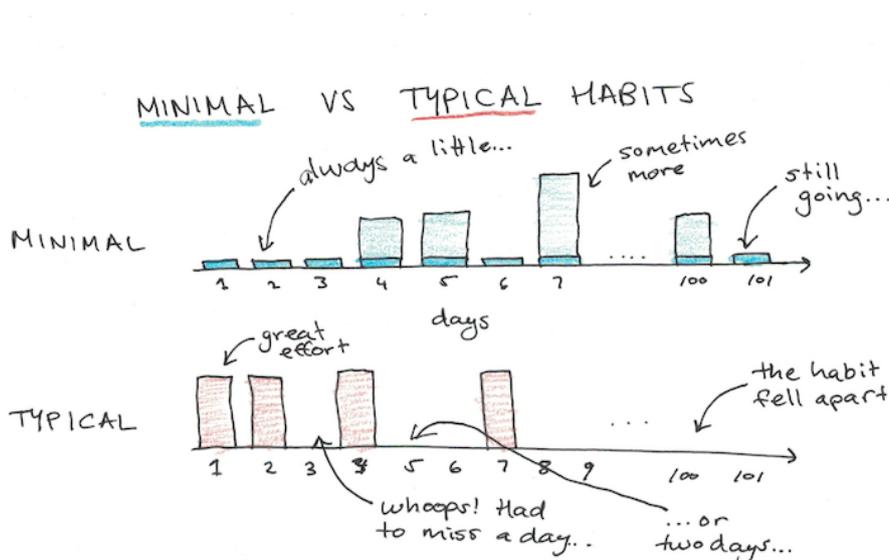
- With a risk of £300 and a reward of £600, the ratio is 300:600 or 1:2
- With a risk of £1,000 and a reward of £3,000, the ratio is 1,000:3,000 or 1:3
- With a risk of £2,000 and a reward of £1,000, the ratio is 2,000:1,000 or 2:1



## Risk Management Bad Habits—Stacking

When a trade starts to incur even a minor loss, some traders might try to re-enter the same trade. This practice, known as stacking, immediately doubles the original loss. However, traders often mistakenly believe:

- This approach will double their chances of winning
- They can recover the PIPs lost from their current position
- They've observed a reversal and now is the ideal time to re-enter



Amateur traders often believe that a trade will eventually turn around in their favor, which leads them to repeatedly enter the same trade due to impatience and poor judgment.

The term “creeping death” describes the scenario where a trade moves against your initial prediction without a stop loss in place. The name is apt because it describes how the trade gradually worsens, eroding your account balance over time.

Adhere to your trading plan, rely on your technical analysis, and trust your initial instincts. Experienced traders typically make only one entry per trade unless they are engaged in swing trading or scaling in. They usually only re-enter if the trade is profitable, not when it's losing; however, this approach is more advanced.

## Losing Streaks

Once again, it's crucial to dispel the notion that every trade will be a success. While you may experience impressive winning streaks, losing streaks can occur at any time. Every trade has the potential to be a losing one, so it is essential to be prepared for this possibility and to protect your account by managing and limiting your potential losses.

### Number of weeks with 10 consecutive losers assuming 100 trades a week

50% Win Rate



Approximately 2.5 out of 52 weeks

40% Win Rate



Approximately 10 out of 52 weeks

30% Win Rate



Approximately 30 out of 52 weeks

20% Win Rate



Approximately 48 out of 52 weeks

## Example 1

As illustrated above, you can see an example of a trading statement showing a strong winning streak followed by a losing streak. This is a normal part of trading. When this happens, take a moment to regroup and reset. It's tempting to act impulsively after experiencing a few losses, but it's crucial to adhere to your trading plan and remain disciplined.

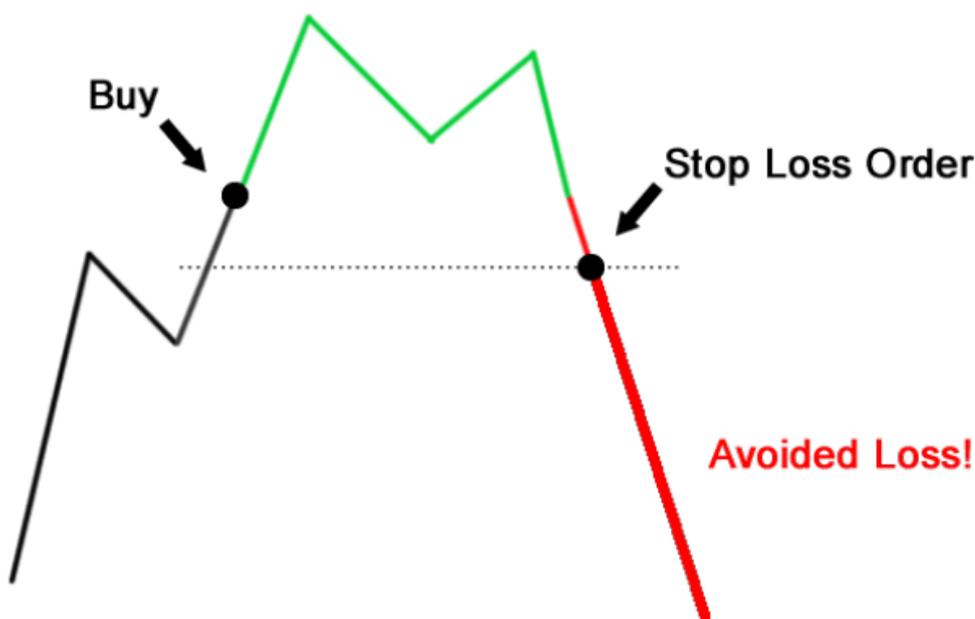
## Example 2

Even a highly skilled trader with an 80% success rate must accept that they can still experience up to 20 consecutive losing trades out of 100. This is a basic mathematical probability. It's crucial to maintain discipline and avoid letting emotions take over during a losing streak. Stay focused and calm when faced with several losses in a row; otherwise, emotions might drive you to seek revenge trades, which can quickly deplete your account. We've emphasized this repeatedly to ensure it's ingrained in your mindset.

## Stop Loss

Setting a stop loss can be quite perplexing, but it's essential to establish it before entering a trade based on your risk parameters. Once set, the best practice is to leave it unchanged. Constantly adjusting it only complicates matters.

Your stop loss is directly linked to your risk management. For example, an inexperienced trader who has faced a few losses might try to set a very tight stop loss to avoid further hits, which could lead to frequent small losses. Conversely, some traders may panic as the price nears their stop loss, prompting them to either adjust or remove it entirely. While they might hope for a reversal, this reaction is irrational and exposes them to potentially unlimited losses.



Your stop loss is a critical tool for managing risk and should be carefully positioned based on logic, not emotions. Properly setting your stop loss before executing a trade can protect your account from significant losses.

Decide on your stop loss prior to entering a trade. The market can move in unexpected ways, potentially resulting in losses beyond what your trading plan or account can handle. Ensure you take the necessary time to establish your Entry, Stop Loss, and Take Profit levels before making any trades. This preparation is key to maintaining safety and discipline in your trading.

## Hedging trades

Hedging is a strategy used by many traders who believe they can bypass the need for a stop loss by hedging their trades if they move against them. So, what exactly is hedging?

Hedging involves placing an initial trade and, if it moves against the trader, they then place an opposite trade to offset the loss. For example, if a trader initiates a sell trade that goes unfavorably, they might then enter a buy trade, hoping it will counterbalance the negative position from the sell trade.

The idea behind this approach is that the trader will exit both trades when the market moves back in their favor, ideally ending up with no loss. In theory, this could allow them to avoid losses and achieve a break-even outcome.

## Allowing the Trade to Breathe

When entering a trade, it's important to remember that the market needs to establish its flow, much like a process of breathing, moving up and down before setting a clear direction. A common issue for beginner and emotional traders is panicking when they see the market move against them, even slightly. However, not every trade will immediately turn into a profit.

Preparation is essential; there's no need to panic if you've already calculated your risk and set your stop loss.





# The Mastery of Technical Analysis

## Transform Your Trading Experience

## **Price Action & Top Down Analysis**

Technical chart analysis and the various patterns displayed on charts are integral to understanding price action, which encompasses the overall analysis and price movement of a market over time. By mastering the interpretation of price action, you can gauge the market's directional bias and trade based on recurring patterns and setups to capitalize on market shifts or continuations.

Price action (P.A.) involves making trading decisions using a clean chart, typically free from lagging indicators but possibly incorporating a few moving averages to identify dynamic support and resistance areas and trend direction. Financial markets produce data on price movement across different timeframes, with charts reflecting the collective beliefs and actions of market participants.

Since price action incorporates every variable affecting the market over a given period, relying on lagging indicators such as stochastic, RSI, or MACD often proves ineffective and will not be covered in this course. Raw price movement provides all the signals needed to develop a profitable and high-probability trading strategy.

Economic variables also influence price movement, which is evident on the price chart. These variables, filtered through human psychology or algorithmic trading, manifest in the price action. However, analyzing numerous economic variables daily is unnecessary, as the overall market sentiment is reflected in the price action.

Price action analysis relies on core price data, making it applicable to any financial market. Before starting your price action analysis, ensure your technical forex charts are stripped of any indicators, presenting a clean chart. Your charting software allows customization of candlestick colors according to your preference. Next, we will review examples of clean and cluttered currency charts.

## Indicator Laden Charts against Clean Charts

There is a significant difference between a clean price action chart and one cluttered with numerous indicators. Comparing the charts below makes it clear which is more effective for analysis. The indicators shown on the lower charts, like many others, are derived from the underlying price action. Essentially, they don't provide additional insight into future market movements; they are based on past data and tend to reduce the amount of visible information on the chart.

A professional, streamlined charting setup featuring just two moving averages is far superior to the basic MT4 platform overloaded with indicators.



## Timeframes and Top Down Analysis

Before diving into advanced technical training, it's essential to understand the different chart timeframes and their roles in analysis and execution. Top-down analysis involves examining the broader trends of an instrument before focusing on the smaller details.

As a trader, it is vital to assess the long-term trend of a currency pair. This involves analyzing support and resistance levels, chart patterns, and other relevant data. For instance, when the market opens at 10 PM GMT on a Sunday, your initial analysis should involve the monthly and weekly charts, as they provide the most recent long-term data.

Analyzing these longer timeframes will give you a comprehensive view of the market, helping you determine whether it is trending upwards, downwards, or moving within a range. For example, a weekly AUD/USD chart showing a bullish engulfing candlestick suggests a high probability of a bullish trend for the upcoming week. At this stage, you should seek a high-probability price action BUY setup using a Daily or 4-Hour chart for precise trade execution. Each candlestick on these charts reflects the price movement over a specific period, providing key insights for making informed trading decisions.

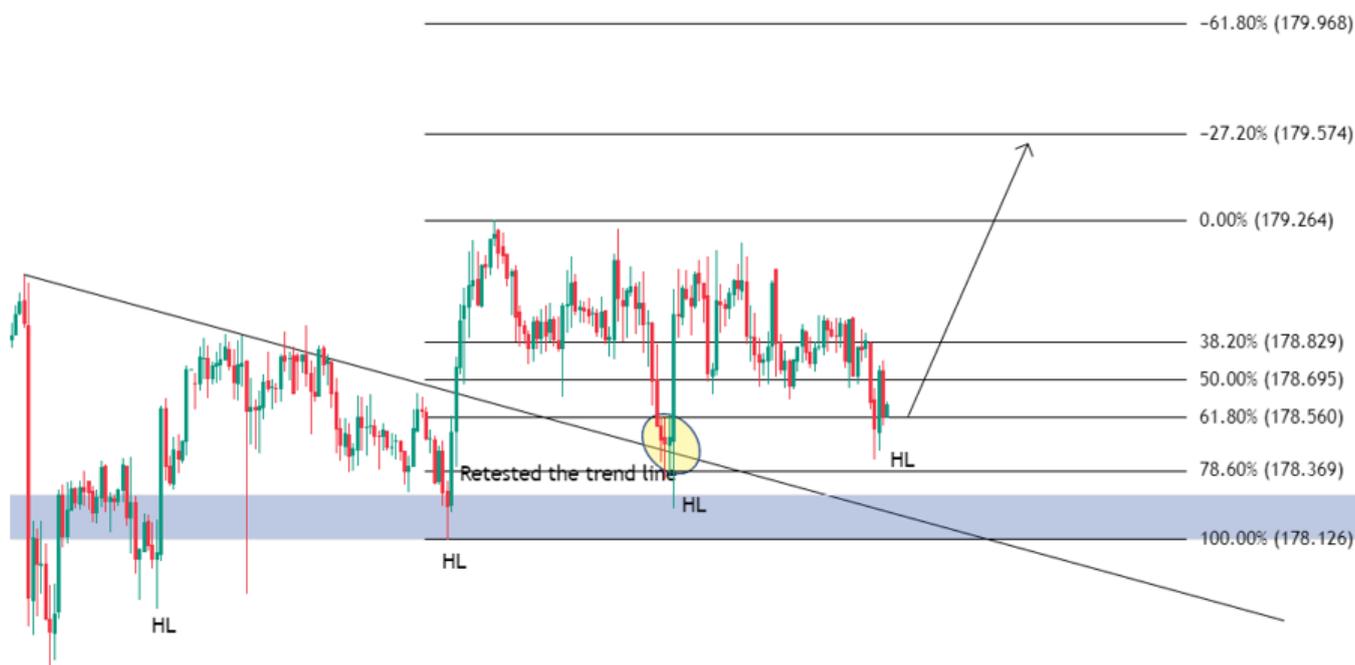
Trend line break & Support holding firm



## Phase 1 : Price Action And Top Down Analysis

By examining the H4 chart, we gain a more detailed view of the instrument. The weekly trend-line break is now clearer, along with a series of higher lows (H.L.), which support our initial bias derived from the weekly and daily timeframes. On the H4 chart, a descending trend-line has been drawn using the first two points, and we are now looking for a potential third bounce (entry point) in conjunction with a FIB C Retracement.

The goal is to perform top-down analysis, gathering price action data to identify confluences. Detailed explanations of trend-line rules and FIB information are provided in the Technical Phases. For setting stop-losses, the H4 chart is used to position stop-loss points above lower swing highs and below higher swing lows.



## Top Down Analysis and Timeframe Execution

In trading analysis, there are specific timeframe rules that many traders either overlook or are unaware of. A fundamental aspect of top-down analysis involves understanding and applying these timeframe execution rules, which we will explore here.

When conducting analysis on the Daily and Weekly timeframes, such as on Sunday nights or at the end of each trading day, the key data points to focus on are key price levels and candlestick patterns. These patterns provide valuable clues about the potential direction of a currency pair.

Longer-term charts, such as those showing price action, moving averages, and key levels, are generally the most significant and reliable. As a professional trader, it is essential to record these levels at the end of each trading day or in the morning and plot them on your charts using the charting tools we will cover in detail later.

Maintaining a trading notepad is highly recommended as it helps in organizing the analysis of your selected currency pairs. It is advisable to focus on trading only 2 out of 7 currency pairs. Break down each pair individually, noting why a particular instrument is bullish or bearish across each timeframe, from the Monthly down to at least the H2 chart. For example:

- Monthly: Candlestick reversal at major resistance level 0
- Weekly: Bearish engulfing pattern and moving average crossover to the downside
- Daily: Trend-line break and formation of a strong bearish marubozu candlestick
- H4: Potential C-retracement FIB with a series of lower highs and lower lows expected



## Phase 1 : Price Action And Top Down Analysis

Monthly: The EUR/USD chart illustrates strong bearish momentum. Recently, the pair has been fluctuating between the upper resistance level of 1.1500 and the lower support level of 1.0500 (a 1000 PIP range, both marked in purple) and has also responded to the weekly mid-range level of 1.1000. A closer look at the monthly candlesticks within this range reveals that the EUR struggled to maintain its highs around the 1.1500 resistance zone. This struggle is apparent from the closed candlesticks and the wicks frequently appearing at this level. This pattern of consolidation may indicate an exhaustion phase following the EUR/USD reaching multi-year lows at 1.0500.



Weekly: Moving to the weekly timeframe, the EUR/USD shows continued rejection at the 1.1500 zone, with Doji and shooting star candlesticks highlighting this resistance. The moving averages also indicate a bearish trend, along with a decisive break below the 1.1000 support and daily support levels. The next significant level to watch is the 1.0500 support, but the pair is likely to breach this level and decline further, given the recent confirmation of lower highs.



## Phase 1 : Price Action And Top Down Analysis

Daily: The daily chart also suggests a bearish sentiment in line with the monthly and weekly technical standpoint. As we have dropped into the lower timeframe we can see yet another reversal candlestick formation around the 1.1500 resistance zone (Bearish engulfing). Once again the moving averages are crossed to the downside! Monthly, weekly & daily crossovers in alignment suggesting a strong bearish trend, in other words assisting us in the direction in which to trade in. On this timeframe, the lower highs are also evident (circled or angle) confirmed and completed by candlestick formations and rejections from the 8EMA (blue).



## Phase 1 : Price Action And Top Down Analysis

H4/4-Hourly: On the H4 chart, more lower swing highs are visible. This timeframe is useful for setting stop losses, and they should be positioned about 15-30 PIPs above entry points for sell/short trades. Additionally, counter trend-lines applied on the H4 chart can be very effective for trade setups. Analytical techniques are dynamic, so it's important to master each tool and use them in a structured manner to maintain clear organization.



H2/2-Hourly: Moving down to the 2-Hour chart, we can see more refined details of price action. The lower highs are clearly marked (circled), and counter trend-lines become more distinct. This timeframe reveals moving average crossovers and breakout points that lead to new lows. A descending trend-line has been added, serving as a guidance tool, maintaining a bearish sentiment as long as the price remains below it. It is advisable not to go lower than this timeframe for trade executions, as the setups become less reliable for a relaxed, medium-term swing strategy. Keep charts organized, draw on analysis, and anticipate potential directional movements in the market.

By now, you should have a solid grasp of top-down analysis. Familiarizing yourself with these timeframe rules is crucial before delving into other strategies. The key is to keep things simple—understand the rules, take your time, make notes, and work with the price action presented on the charts.

As we proceed with technical advancements, remember that trading is essentially a financial game between bulls and bears, each with clear objectives. Consider how the market moves: bulls aim to make new highs and gain an advantage over bears, while bears strive to make new lows and outscore the bulls. Approach trading like a game—relaxed and enjoyable. Successful trading is an art; focus on mastering the art of trading rather than fixating on monetary gains.

## Key Level Placement - A Smart Approach

Support and resistance levels are arguably the most critical technical factors in trading. These key levels represent specific prices for a currency pair where the price may find support below the current market level or encounter resistance above it. Support acts as a floor, while resistance functions as a ceiling, serving as barriers to price movement.



For example, the 4-hour USD/CAD chart above illustrates various support and resistance zones. These key levels, known as major support and resistance areas, are strong price points where the USD/CAD has repeatedly reacted. The currency tends to respond to these specific price points with high accuracy. In simple terms, the market can either bounce or break upon approaching a key level. Many traders struggle because these key levels are not drawn accurately on the graph. Support and resistance are the foundations for various other price action applications.

The mid zone (1.3050) initially served as a support area before being broken (to the left), later turning into a resistance level once it was breached (labelled as resistance and support). Typically, when a support level is broken and the bears take control, the price often retests the same level from underneath before continuing downward, and vice versa.

Every time you trade, you must choose a side. If you pick the right side, you will make money; if you pick the wrong side, you will lose money. It is vital to understand and continuously monitor support and resistance levels so that when it's time to trade, you know which side to choose: the bulls or the bears.

## Phase 2 : Key Level Placement, A Smart Approach

The chart below is a monthly AUD/USD. At first glance, it can appear quite daunting and may overwhelm some traders. Many novice traders struggle to know where to begin or what to look for. Breaking down a currency chart requires attention to detail, patience, and continuous logging of progress.

When starting to analyze any currency pair, it's essential to begin with the monthly chart. As shown below, maintaining a clean chart is advised for organization and clarity. We will delve further into the details of moving averages (M.A.s) in the next technical phase.



Let's get started. We will walk through the step-by-step process of implementing key levels, covering the specifics for Monthly, Weekly, Daily, and H4 timeframes.

## Step 1: The Monthly Timeframe



As illustrated above, start by drawing the initial support and resistance zones using the horizontal line tool. It is perfectly acceptable to review several months' worth of data to establish an official support/resistance range. Remember to apply candlestick recognition and consider round numbers (psychological barriers). The first range should typically be less than 1000 PIPs from top to bottom, except for some YEN pairs.

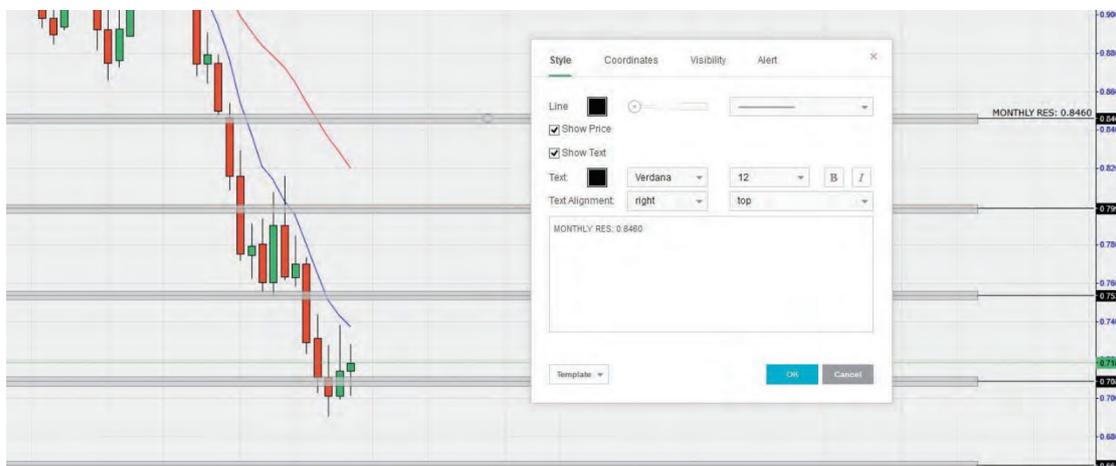


Once you are satisfied with your initial boundary, refine the levels using the line chart on the weekly timeframe. Next, measure the zone with the line tool, ensuring accuracy by stretching the chart out and taking your time. Copy and paste the first arrow onto both sides of the range as illustrated above. Remember, each currency pair will differ slightly as they all have different average daily ranges. FX pairs tend to move in legs, so this is a powerful method for laying the foundations for each instrument.

## Phase 2 : Key Level Placement, A Smart Approach



The next step is to remove the arrows from the chart and use the rectangle tool to draw a thin strip across the horizontal lines. This creates a more dynamic zone, helping to define the levels more accurately when moving to a lower timeframe. Support and resistance on higher timeframes should not be confined to a single price point. While history tends to repeat itself in the market, prices may spike exactly to, just above, or just below these levels.

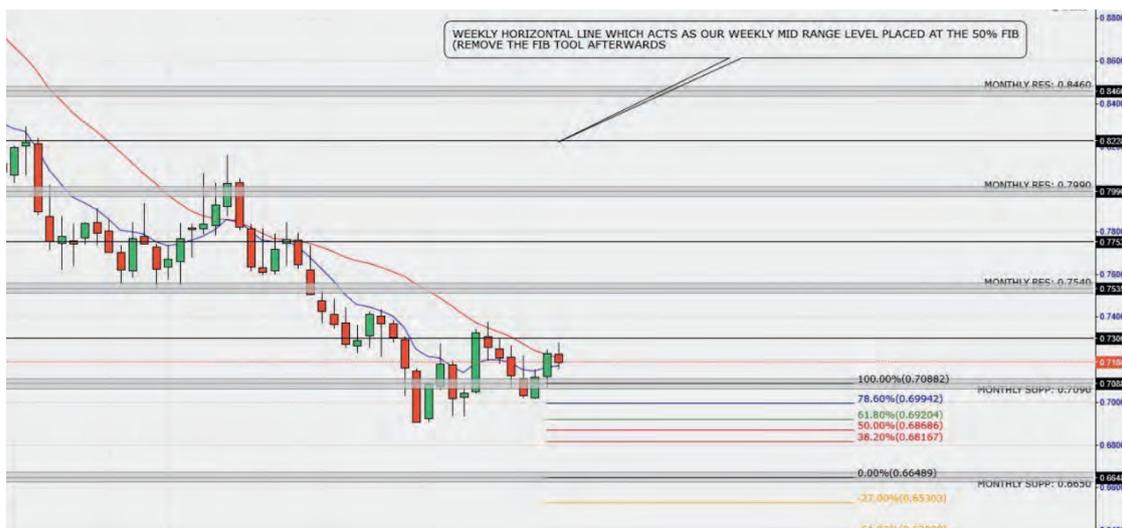


The next step in organizing your chart is to label the monthly levels. To do this, right-click the horizontal line you want to label, then click the 'Cog' icon on the toolbar that appears. Make sure 'Show text' is selected and label them as MONTHLY RES/SUPP: 1.(to the nearest 10). Repeat this process for each monthly key level. This only needs to be updated every few months. Apply this to each currency pair on your watch list.

## Step 2: The Weekly Timeframe

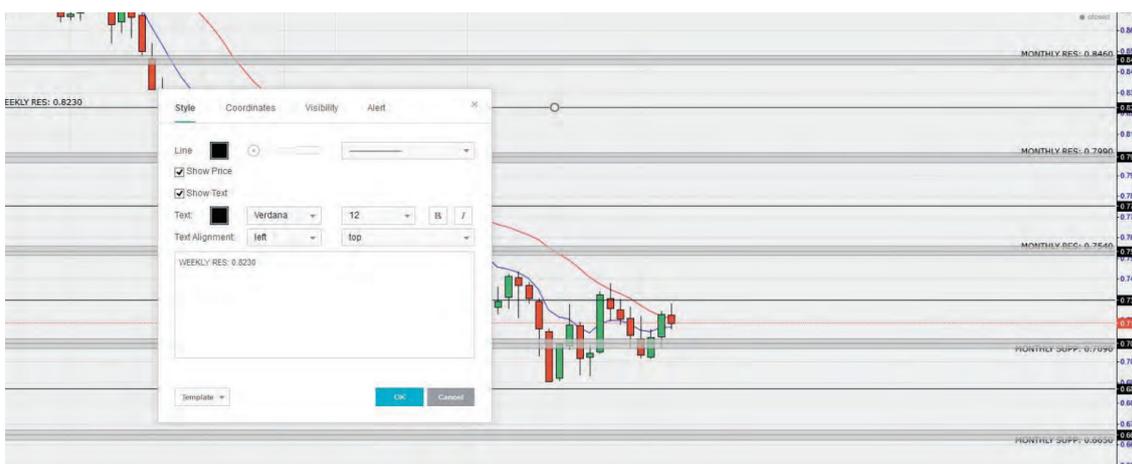


Step down to the Weekly chart and select the Fibonacci tool. Use this tool to measure each of the ranges plotted on the monthly chart, as shown above. Click from one horizontal line to the next as accurately as possible. Then, take another horizontal line and place it on top of the 50% Fibonacci line. The goal is to accurately plot weekly mid-range levels by taking the exact 50% measurement of the monthly range. Repeat this process for all the monthly ranges, removing the Fibonacci tool after each one. Progress shots are shown below.



## Phase 2 : Key Level Placement, A Smart Approach

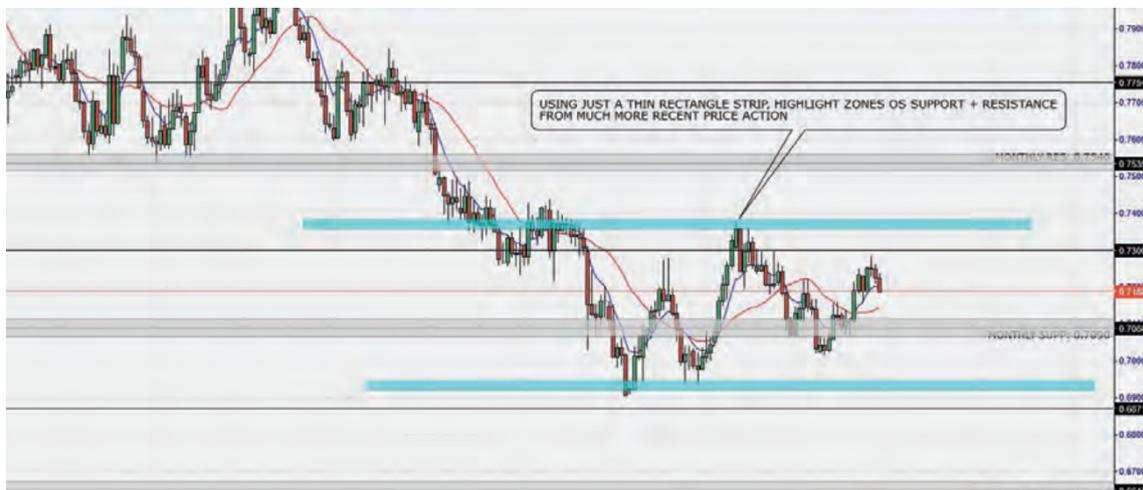
Once all the weekly horizontal lines are placed at the 50% Fibonacci levels, it's time to label them. Right-click each horizontal line and proceed with marking them. For organization and clarity, place these weekly labels on the left-hand side. Note: Do not draw a horizontal strip across the weekly levels; leave them plain and labelled.



As shown below, the price reacts strongly to the weekly mid-range levels, making these zones highly effective for setting profit targets. They serve as crucial confluences for taking profits. We'll explore this further later, but for now, let's move on to the Daily timeframe.



### Step 3: The Daily/H4 Timeframe



The Daily chart above illustrates how to accurately draw the Daily and H4 key levels for optimal clarity and efficiency. It's crucial to zoom out slightly and take your time, switching between the H4 chart to align the rectangles with precision.

Usually, you'll identify one or two key levels, but the weekly and monthly levels often cover most scenarios. Avoid cluttering the chart and use the line graph to help align these Daily and H4 levels, minimizing market 'noise.' As you gain experience with candlestick patterns and become more familiar with each currency pair, your ability to establish key levels will improve. An example is provided below.



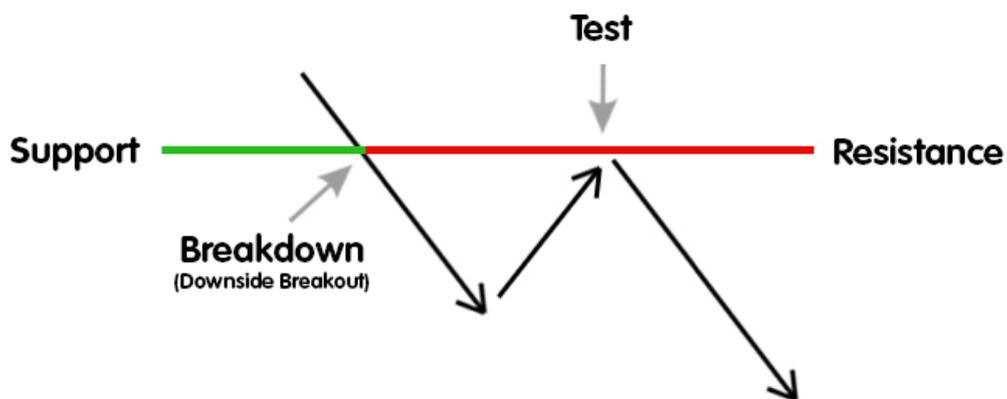
## Phase 2 : Key Level Placement, A Smart Approach

Notes: Levels established on timeframes at or below H1 are often unreliable due to increased market 'noise,' which results from frequent, smaller price movements. This can lead to confusion.

Think of support and resistance as a staircase: bulls are climbing up the stairs, creating higher highs and higher lows, indicating an uptrend, while bears are descending, making lower lows and lower highs, indicating a downtrend.

To find additional levels or if you're having trouble locating any, revisit historical data. If your market bias is bullish, wait for the market to break through previous resistance levels, placing your stop-loss order below the last low or support level.

Conversely, if your market bias is bearish, wait for the market to break through previous support levels, placing your stop-loss order above the last high or resistance level.



## The Moving Average Theory

The moving average is a popular tool in technical analysis, used to smooth out price movements by filtering out the “noise” from random price fluctuations.

A moving average (MA) is considered a trend-following or lagging indicator because it relies on past price data. There are two main types of moving averages: the simple moving average (SMA), which calculates the average price of a currency pair over a specified number of periods, and the exponential moving average (EMA), which gives greater weight to more recent prices.

Moving averages are commonly used to identify the direction of trends and to determine support and resistance levels. While they are effective on their own, they also serve as the foundation for other indicators, such as the Moving Average Convergence Divergence (MACD).

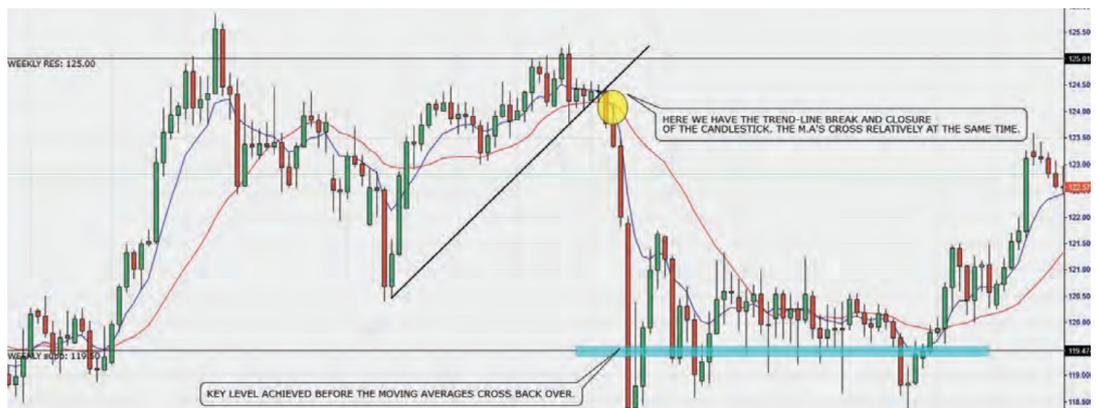


The moving average crossover strategy is based on the principle of initiating a trade when the blue and red lines cross. This serves as an additional confirmation signal, working particularly well with trend-line breaks, helping to identify the trend direction and various entry points. This approach can be combined with other price action strategies for enhanced confirmation, ultimately leading to higher probability trade setups.

This strategy is straightforward yet effective: enter a trade when the moving averages cross in the direction of the trend, and exit when a crossover occurs in conjunction with a support or resistance level. There are three key scenarios to consider when using the moving average crossover with trend-line or counter-trend-line breaks.

### Phase 3 : The Moving Average Theory

1— A breakout occurs, and the candlestick closes above or below the trend-line, with the moving averages crossing over simultaneously on your execution timeframe (often just before or immediately after the breakout candle).



2— A breakout happens, and the candlestick closes above or below the trend-line, with the moving averages crossing slightly after the breakout candle. In this situation, it is advisable to wait until the moving averages have crossed on your execution timeframe before proceeding.



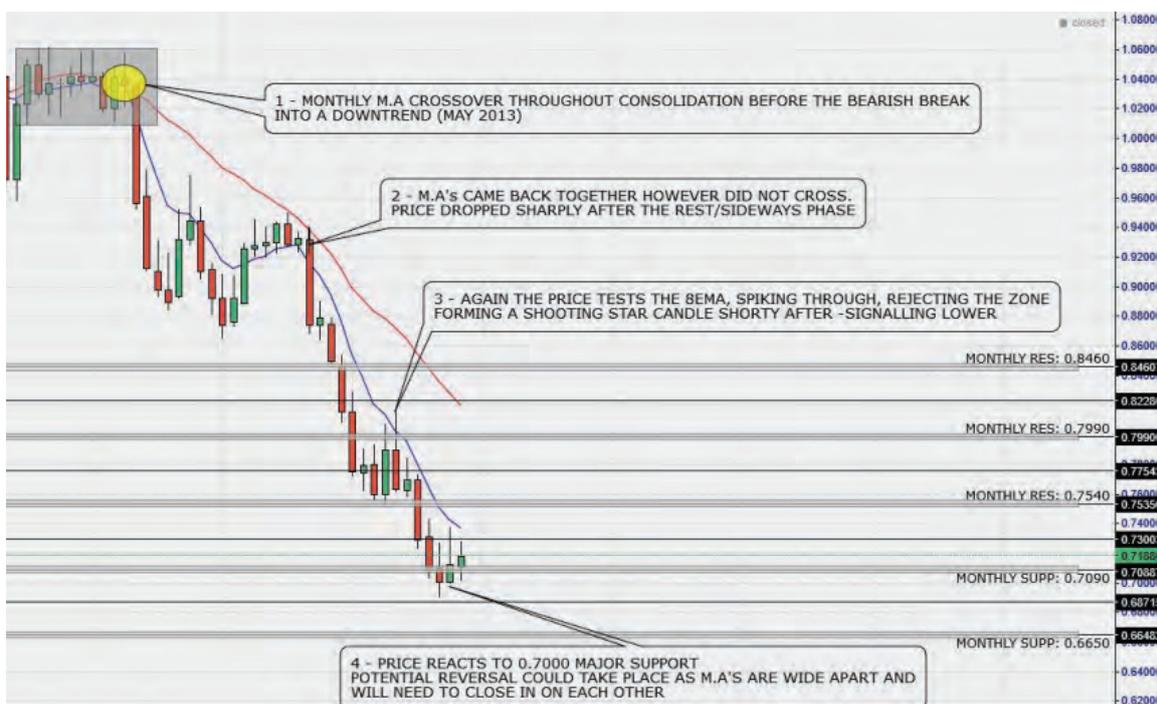
### Phase 3 : The Moving Average Theory

3 —A breakout and candlestick close above or below the trend-line occurs after the moving averages have crossed, as shown below. This represents the strongest moving average breakout scenario, serving as a warning signal and preparing you for potential volatility.



## Using Moving Averages to Assist with Trend Direction

Moving averages can be highly effective for analyzing a currency pair and conducting top-down analysis to determine the overall trend direction and anticipate the market's next move. Moving averages not only help in creating trade confluence but also smooth out and protect against sudden market movements that may be considered 'false,' such as false breakouts, fundamental data spikes, and market manipulation. Let's begin with an example using the AUD/USD monthly chart.



### Phase 3 : The Moving Average Theory

The monthly moving averages indicate a strong downtrend, and the weekly timeframe also shows signs of Australian dollar weakness against the US dollar. This weakness has been evident. The pair rebounded from the 0.7000 level (monthly support), as shown below. The moving averages may now be setting up for an upside crossover. Additionally, observe how the price often rebounds to the 8 EMA to form a lower high, sometimes spiking above it but eventually rejecting and rolling over lower. Now, let's examine the daily chart.



### Phase 3 : The Moving Average Theory

Below is the daily timeframe. While the monthly and weekly charts show the moving averages pointing downward (bearish), the daily chart reveals pullbacks, broken trend-lines, and moving average crossovers that align with the overall trend. These setups present excellent opportunities to capitalize on the trend and potentially profit from lower prices.



Examining the H4 chart offers a more precise perspective. It's essential to adopt a top-down analytical approach across all layers and strategies applied to the charts. The Monthly and Weekly timeframes are valuable for understanding broader price action but are not typically used for direct trade execution. When a setup is identified on the Daily chart, trade execution might be appropriate, but it's crucial to refine your analysis by reviewing the H4 (and possibly H2) charts for additional confluence and setups. This approach can improve the risk-reward profile of your trades (more on this later). As shown below, the H4 chart reveals two potential scenarios for the AUD/USD, providing context for longer-term data and guiding you through the market's momentum phases.



## Trend Line Application

Trend lines are a crucial component of trading, whether in forex, commodities, or stocks. While it's possible to be profitable without them, incorporating trend lines effectively can significantly enhance your trading when used alongside other technical methods discussed in this book.



**Bearish reaction**  
**(if the price is below the trend line)**  
Trend line serves as **resistance**

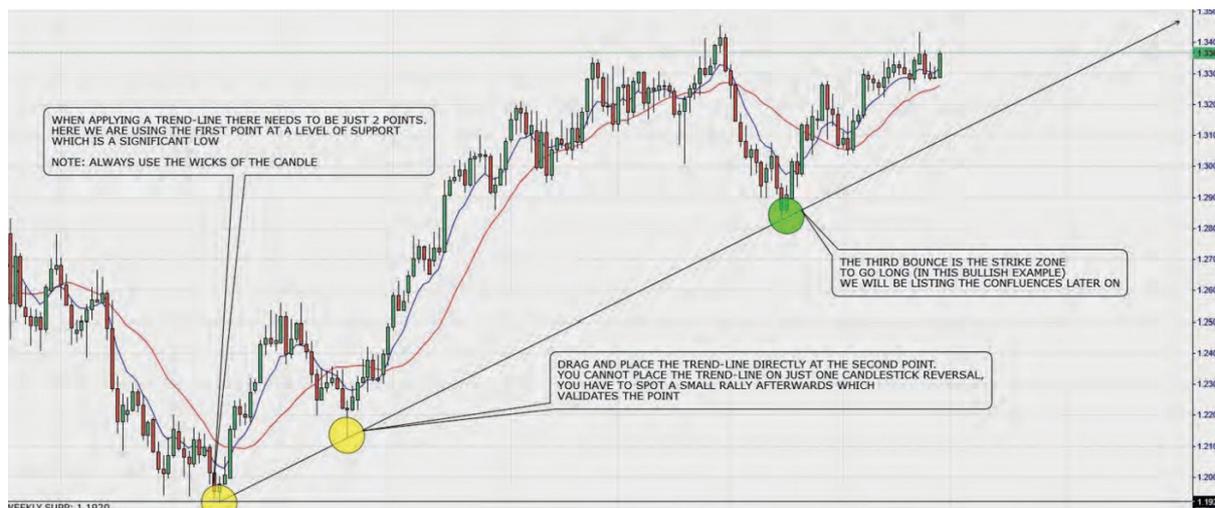


**Bullish reaction**  
**(if the price is above the trend line)**  
Trend line serves as **support**

A trend line, by definition, is drawn by connecting two or more lows or two or more highs, extending these lines into the future. Traders typically observe these extended lines to make trading decisions based on how prices interact with them, either trading the bounce off a trend line or the breakout through a trend line, as illustrated in the example above.

## Connect Swing Lows to Swing Lows (or Swing Highs to Swing Highs)

You should draw a line connecting at least two swing lows or two swing highs. For those unfamiliar with the term, swing highs and lows refer to the peaks and valleys formed by zigzagging prices. Once you connect these peaks or valleys, the trend line should ideally not be broken by any candles between these two points. Let's demonstrate how to accurately draw a trend line on a daily chart.

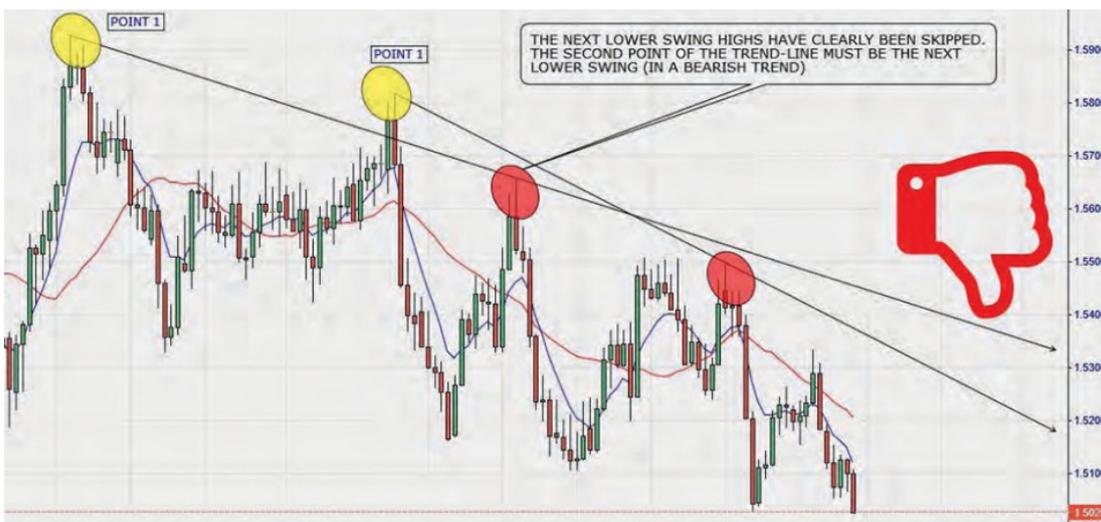


## Phase 4 : Trend Line Application



In the example above, we have accurately drawn two descending trend lines, connecting the clear and immediate lower swing high points without skipping any price action or intersecting candlesticks. It is crucial to take your time to ensure maximum accuracy with your trend lines and always extend them into the future as shown.

Below is an example of a trend line drawn incorrectly. The trend line, starting from the first point in the top left (circled in yellow), extends through the subsequent lower swing high and fails to align with the next lower swing high.



## Phase 4 : Trend Line Application

The chart below provides another clear example of how not to draw a trend line. In this case, the candlestick at point 2 closed as an indecisive Doji, but this does not justify applying a trend line here.

While this candlestick may suggest a potential reversal to the upside, the confirmation for such a move has not yet been established. Compare this with the lower chart for a better illustration.



## When should Trend-Lines be Drawn and Which Timeframe?

Many traders struggle with trend-line application due to a lack of organization and structure in their technical analysis. Once you have completed Phase 2—where you place and label key levels and identify the overall trend direction (if any)—move on to Phase 3. Review the state of the moving averages on the suggested timeframes and highlight any lower highs, higher lows, etc.

Trend-line application should begin on the weekly timeframe. It's generally best to avoid focusing too much on the monthly timeframe, as trend lines on monthly charts are often more applicable to the weekly timeframe.



## Phase 4 : Trend Line Application

The initial search for trend lines should start on the weekly timeframe. After completing Phase 2 and Phase 3, you should gain a clearer understanding of the trend direction, which will help you establish a directional bias for drawing trend lines. Once you are satisfied with the trend lines on the weekly chart (keeping to one or two lines), move on to the daily timeframe for further refinement. Ensure the lines are as precise as possible and extend them into the future, as trend lines also serve as sentiment indicators. In the case of the AUD/USD, the sentiment was very bearish, but the daily (blue) trend lines have been broken to the upside after the support level held. Currently, the price is above the weekly (black) trend line, and if the pair continues to rise, we could be witnessing a bullish reversal!



## Trend-line Bounce Rules and Confluences to look for

The trend is always a trader’s ally, but only if you follow the directional bias. This principle also applies to trading trend lines: you should buy only at bullish support levels above the trend line and sell only at bearish resistance levels below it. Trading in the direction of the trend allows you to take advantage of potential trend-line bounces as effectively as possible. While trend-line trades won’t guarantee 100% success, the winning trades are likely to yield more pips compared to trading against the trend.

Here is a clear example illustrating the ideal moment to wait for when trading a trend-line bounce. This “third point/strike rule” applies exclusively to Weekly and Daily trend-line bounces, not counter-trend lines, which will be covered shortly. Confluences are detailed on the next page.



## Phase 4 : Trend Line Application



Each time the price bounces off the same trend line, it increases the likelihood that others are also observing it and engaging in similar trades. This can lead to multiple successful entries in a row, but remember that trend lines are not permanent. Therefore, it's important to set appropriate stop losses to exit quickly if the support or resistance trend line eventually fails.

An upward-slanting (bullish/ascending) trend line indicates that the price has been trending upward, so you should look for buying opportunities. These opportunities arise when the price falls and approaches the trend line for the third bounce.

## Phase 4 : Trend Line Application

A downward-slanting (bearish/descending) trend line signals that the price has been trending downward, so you should seek selling opportunities. These opportunities arise when the price rises and approaches the trend line for the third bounce, as shown below.



## Trend-line Break Rules and Confluences to look for

Trend lines can certainly break! There are specific rules to follow when a Weekly or Daily trend line is breached. These rules help provide structure and anticipate future price movements, allowing you to capitalize on a reversal efficiently or use it to inform your trading bias.



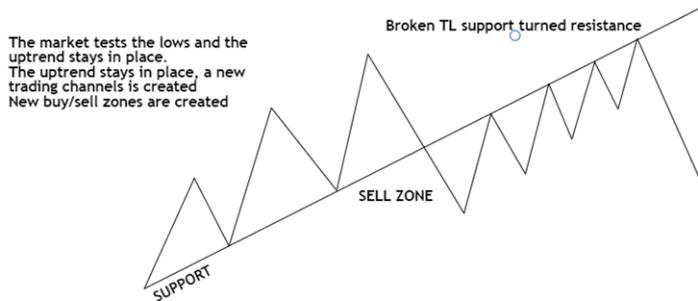
## Inner, Outer & Long term Trend-lines - The Break

When the inner trend line is broken and you are short on that currency pair, you should take profit near the outer trend line. Essentially, trend lines act as slanted areas of support and resistance, so set your profit targets around these key levels. Additionally, anticipate future price action, as the price may be positioning for a third bounce on the outer or long-term trend line to initiate the next move (bullish in this case).

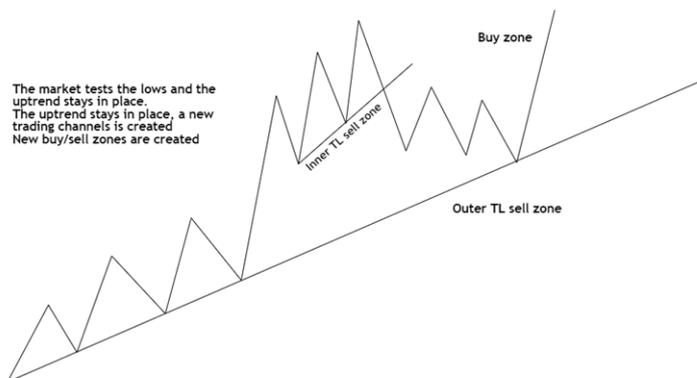


# Phase 4 : Trend Line Application

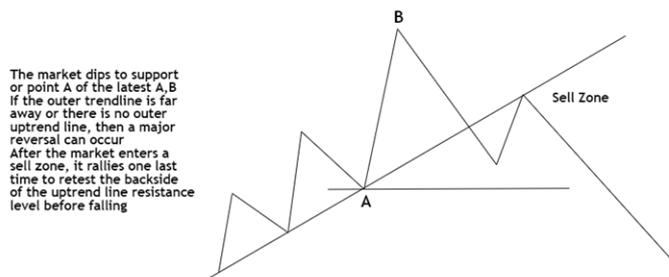
1 of 3 events may occur open spotting a trendline break



2 of 3 events may occur upon spotting a trendline break



3 of 3 events may occur upon spotting a trendline break



### Rules to Trading the Sell Zone

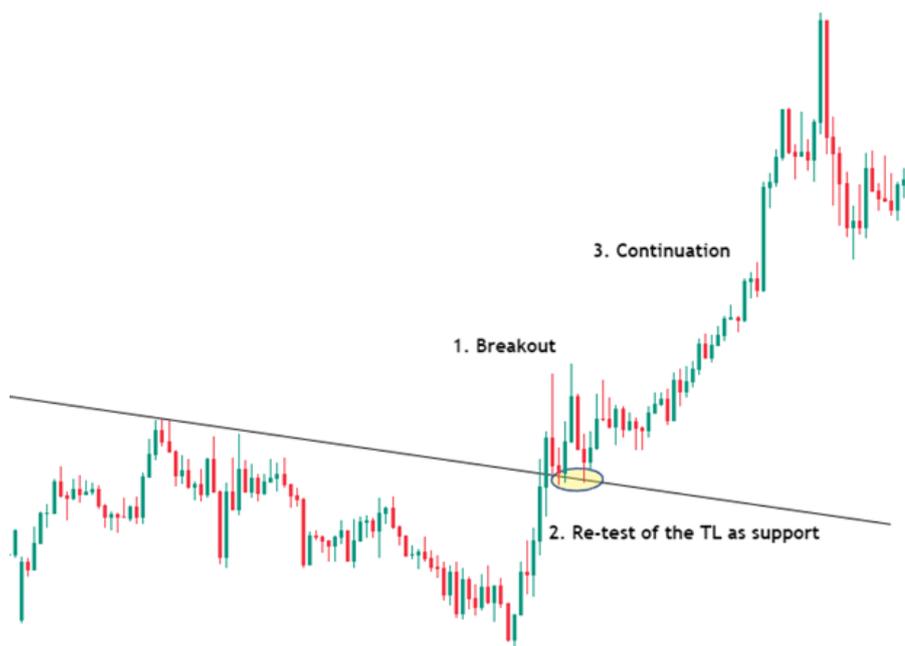
- Identify and draw all trend lines, including inner, outer, and long-term lines. This will help you determine if the market is in an uptrend, downtrend, or if a trend line break signals a potential trend reversal.
- Locate the uptrend line break and the bearish candle in the sell zone.
- Identify the back side of the uptrend line (resistance) to see if it is lower than the last high, providing a high-probability trade setup.
- Determine the last high to establish where to place your protective stop loss.
- Identify the outer uptrend line and support levels to determine potential profit-taking points.
- Calculate the latest A, B, C, D pattern and find the D extension.
- Place the stop loss 15-30 pips above the candlestick reversal at the third bounce.

### Rules to Trading the Buy Zone

- Identify and draw all trend lines—inner, outer, and long-term—to help determine if the market is in an uptrend, downtrend, or if a trend line break indicates a potential trend reversal.
- Locate the downtrend line break and the bullish candle in the buy zone.
- Identify the back side of the downtrend line (support) to see if it is higher than the last low, providing a high-probability trade setup.
- Determine the last low to establish where to place your protective stop loss.
- Identify the outer downtrend line and resistance levels to determine potential profit-taking points.
- Calculate the latest A, B, C, D pattern and find the D extension.
- Place the stop loss 15-30 pips below the candlestick reversal at the third bounce.

## Breakout, Retest, Continuation

When a trend line is broken, the price often pulls back to retest the line as a new support zone, as shown below. The same applies to a descending channel break. It's useful to draw a thin strip across the new high and wait for a clear continuation before executing the trade to be more conservative.



## Counter Trend-Line Application

Counter trend lines (C.T.Ls) are highly important, and when placed accurately, they can provide excellent trade setups for trend trading. These lines should be placed on the H4 and H2 charts once key levels and overall trend lines have been established for any specified currency pair. They are called 'counter' trend lines because they are drawn from low to high during a bearish pullback and from high to low during a bullish pullback. For instance, when the C.T.L is broken (alongside an M.A crossover) and a fully formed and closed candlestick appears above or below the C.T.L, we execute a trade in the direction of the trend. Typically, we anticipate a new low or new high to form upon a C.T.L break. An example is shown below.



## Channel Trading

Parallel channels are among the most common chart patterns and provide traders with excellent opportunities for high-probability trade setups, whether the market is trending or non-trending. They are also not dependent on specific timeframes.

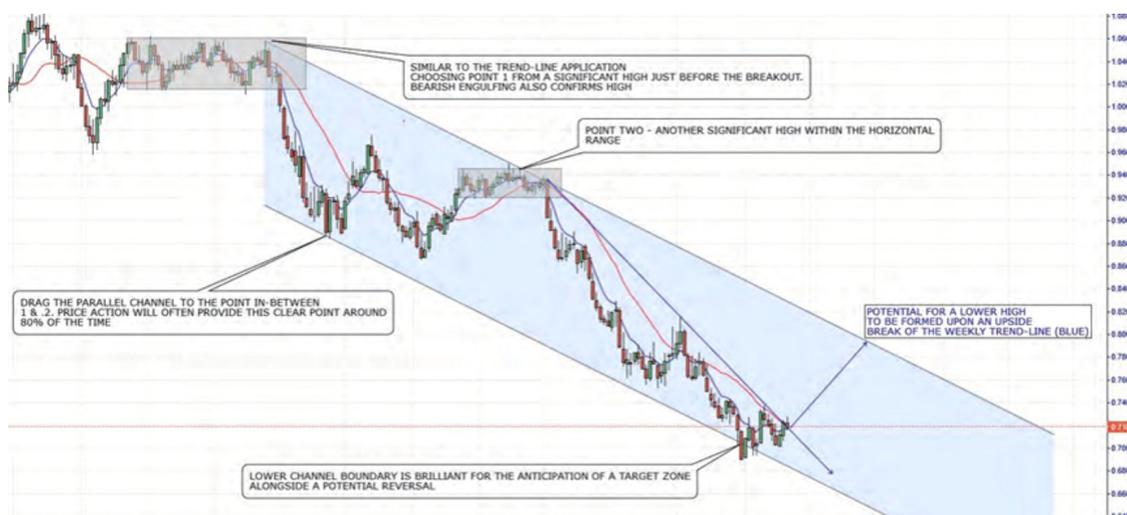


Horizontal channels, also known as ‘trading ranges’ or ‘consolidation,’ were discussed in detail earlier. Regardless of the market’s current condition, parallel channels are always present, whether they are horizontal, ascending, or descending, as shown in the examples below.



## Phase 4 : Trend Line Application

Parallel channels can be identified once you spot two tops and two bottoms (marked with yellow boxes on the chart). Once such a channel is identified, you can use the following trading strategy: wait until the price approaches either the upper or lower trend line to determine the setup. Refer to the descending channel example below.

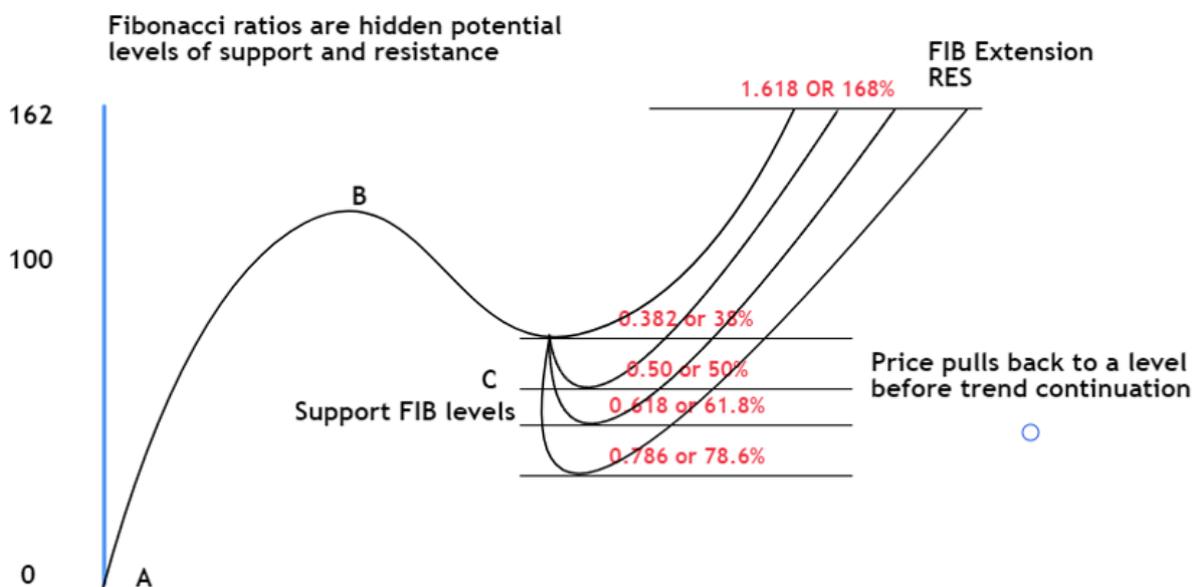


## Fibonacci Play

Fibonacci is one of the most renowned names in mathematics, which would likely surprise Leonardo Pisano, the mathematician behind the name. He might have been equally astonished to learn that he is celebrated for the famous sequence – 0, 1, 1, 2, 3, 5, 8, 13 (each number being the sum of the two preceding ones) – rather than for his arguably more significant contribution of popularizing the modern number system in the Latin-speaking world.

The Fibonacci sequence is fundamental in constructing sacred geometrical patterns, as everything in the universe follows a spiral formation. This sequence is present in nature and even in the genetic and physical structure of the human body. By dividing a pair of consecutive Fibonacci numbers, the larger by the smaller, you approximate the golden ratio (1.618). For example, 13 divided by 8 equals 1.625, and 21 divided by 13 equals 1.615.

In addition to its geometric patterns in nature and its relevance to the human body, the Fibonacci sequence is also applied in financial markets to identify high-probability trading setups across various timeframes.



## The Fibonacci Levels which Theforexsignals focus on primarily

Retracement levels:

- 38.2% - Fast and aggressive pullback bounce
- 50% - Medium pullback bounce
- 61.8% - Golden number pullback bounce
- 78.6% - Stop-loss level (place stop-loss 10 pips beyond this level)

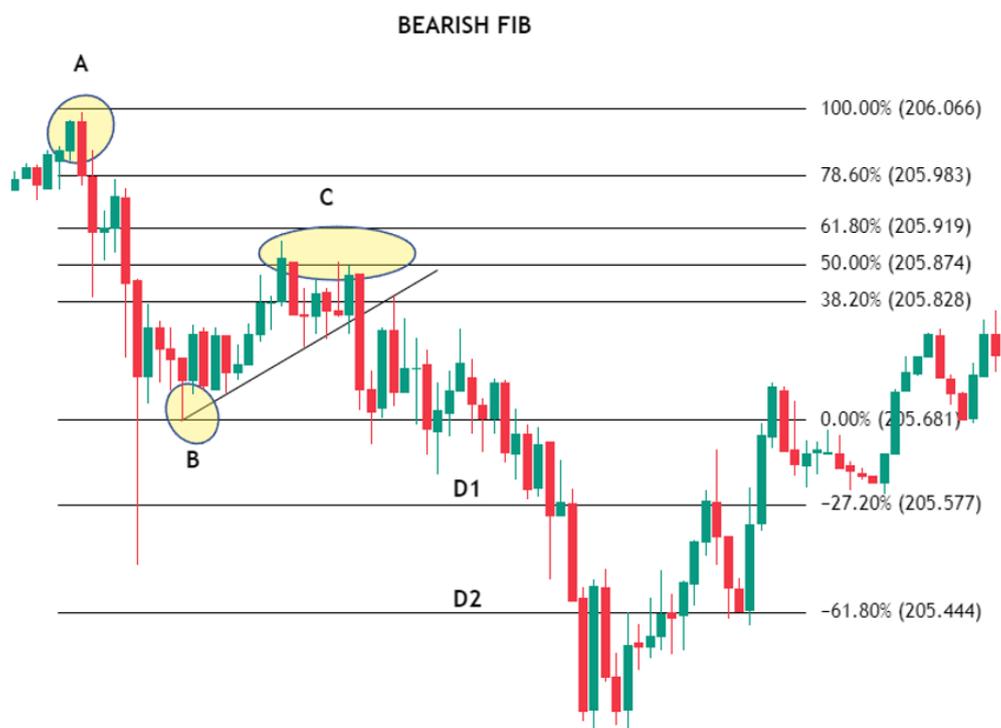
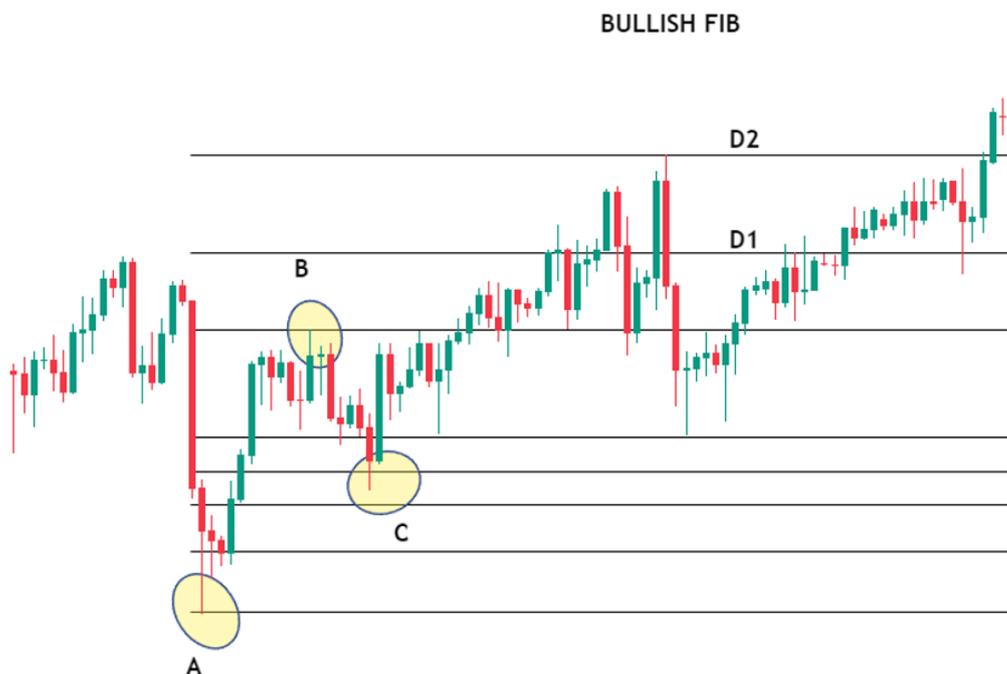
Extension levels:

- -61.8% and -27% - Target areas for trend continuation



## Bullish & Bearish Fibonacci Wave example

The Fibonacci retracement should be drawn from a significant low point (FIB A) to the next significant high point (FIB B). These points are identified by candlestick formations at support or resistance levels. Once you have established the A-B wave, extend the Fibonacci tool to the right side to allow for price action to play out.



## Phase 5 : Fibonacci Play

When using Fibonacci, begin on the weekly timeframe, aligned with the prevailing momentum or trend established in earlier technical phases. Keep in mind that it may take some time for the currency to reach the potential D1 and D2 extension levels on the weekly and daily charts. Fibonacci is a key tool for determining a clearer directional bias for the overall trend. The H4 and H2 timeframes are ideal for Fibonacci execution. On these timeframes, you should also apply the stop-loss rule, placing it 15 pips above the 78.6% retracement level.



## Phase 5 : Fibonacci Play

Below is a clear example of Fibonacci precision! The GBP/USD weekly chart formed a bearish A, B, C, D pattern. The 38.2% Fibonacci retracement level held strongly, propelling the price to new lows with an almost perfect reaction at the Fibonacci D1 extension level. Once the Fibonacci A, B, C, D pattern is complete, you can draw a new Fibonacci from the C point to the D point (reversal level). This setup is ideal for establishing a new Fibonacci wave if the market experiences a pullback before moving lower.



## Phase 5 : Fibonacci Play

As shown, once a Fibonacci setup is completed, you can apply a new Fibonacci retracement from the previous FIB C (now the new FIB A) to the previous FIB D (now the new FIB B). These points are highlighted, with the new Fibonacci tool indicating potential retracement levels for forming a new lower high, which could trigger a continuation of the bearish trend. Targets are projected to the new Fibonacci D extension.



## Phase 5 : Fibonacci Play

The example below shows a bullish A, B, C, D pattern on the H4 chart. This classic before-and-after shot from Theforexsignals illustrates how to effectively document your trading journal (more details to follow). A long/buy entry was executed at 1.07366, at the 38.2% Fibonacci C retracement level, following a break of a counter trend line and a subsequent rally to new highs. The Fibonacci D1 extension target of 1.08012 was reached as well as the D2 extension target of 1.08324.



### Remember

It's crucial to develop the habit of anticipating future market movements. Always plot your support and resistance levels on the charts daily, while observing past resistance levels for potential future support and vice versa in a downtrend.

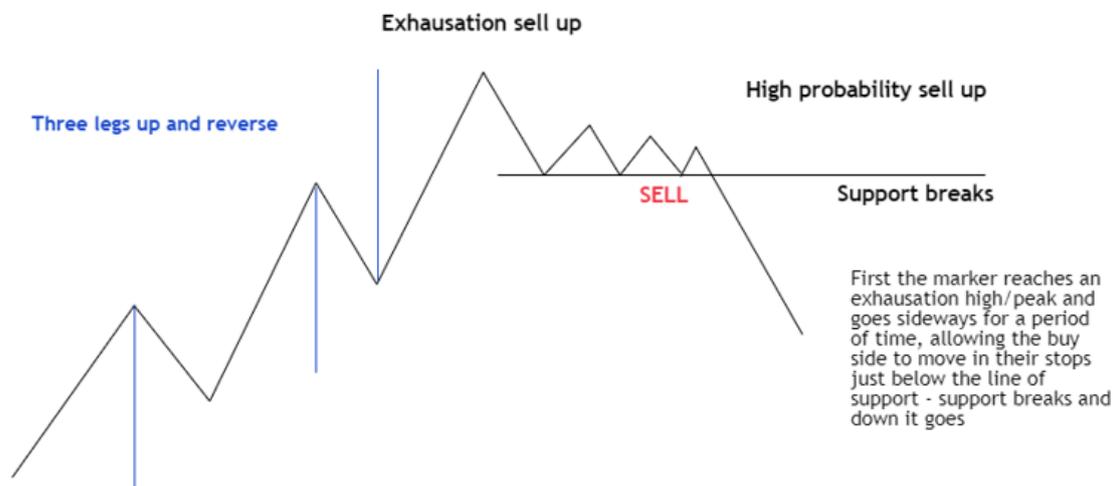
Regarding the C wave retracement, watch for candlestick reversals, trend-line bounces, and touches of Fibonacci levels, as these convergences are strong indicators for trade execution. Ensure to place a protective stop loss 10-15 pips above or below the 78.6% Fibonacci level. Exit the trade just before the projected D wave extension level (-61.8%/161.8%) by setting your target price 10 pips below resistance (if bullish) or 10 pips above support (if bearish). Additionally, using counter trend lines can enhance profit potential and improve trade setup probability.

Trading the 61.8% and 78.6% Fibonacci bounces in the direction of the prevailing trend is advantageous because your stop loss will be relatively small. If the market breaches the 78.6% Fibonacci level with a daily candlestick close (79% of the latest swing), it often signals a high probability of reversal as it is the last level of hidden support/resistance.

If the market retraces to the 38.2%, 50%, or 61.8% Fibonacci levels, there is a strong chance it will surpass the B wave high or low, typically reaching the -27 or -61.8% (D extension). However, if the C wave retracement closes a daily candle above or below the 78.6% level (as shown on the following page), a trend reversal is possible. Conversely, if the market turns without making a new low (below the A wave), it may enter a period of sideways movement or consolidation.

Technical traders recognize the significance of the 50% and 61.8% levels as key support zones. A break below these levels, especially if the second test fails to generate strong volume and does not rally, can signal trouble. Buyers may exit or plan to short the market. In such scenarios, traders often focus on self-preservation, reacting to human emotions like greed and fear, as they see the situation turning against them. Moods can shift rapidly when market conditions change, and recognizing these shifts in advance can provide valuable trading opportunities.

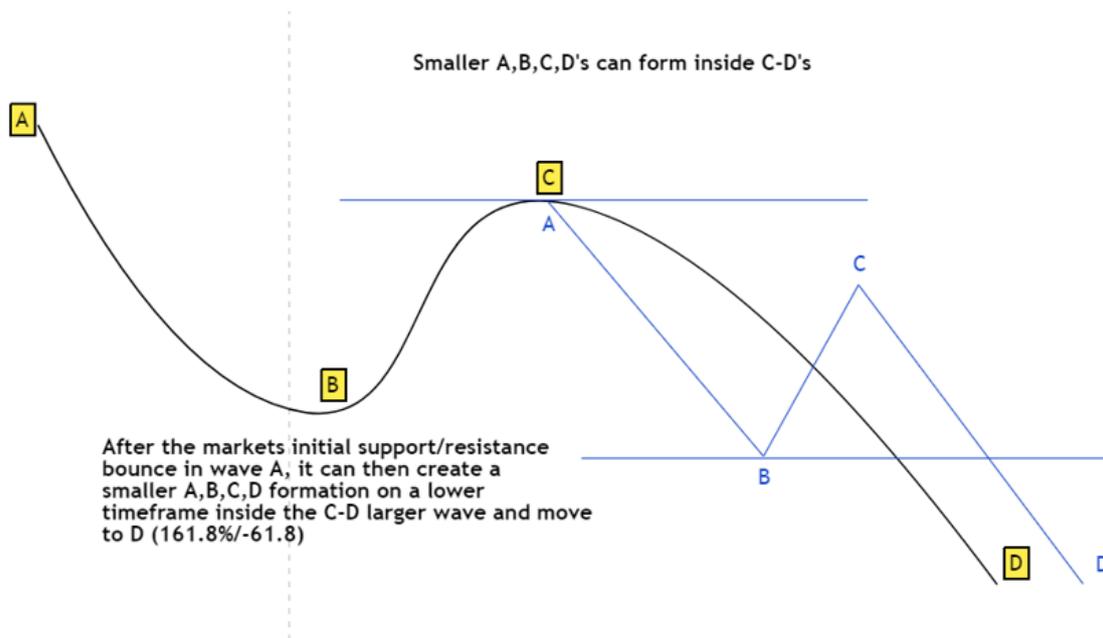
## Phase 5 : Fibonacci Play



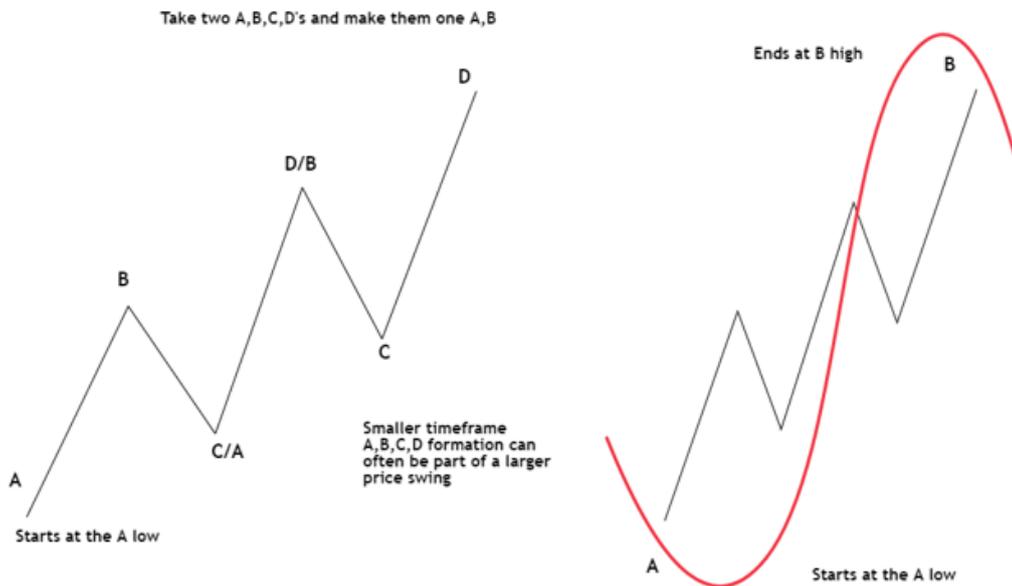
Below is an example where the price breaks through all of the Fibonacci retracement levels. In this situation, it's crucial to be aware of the key levels on higher timeframes, as a potential reversal could be imminent, particularly if the pair closes above the 78.6% level on the daily timeframe.



## Phase 5 : Fibonacci Play



### Uptrend Price Swings

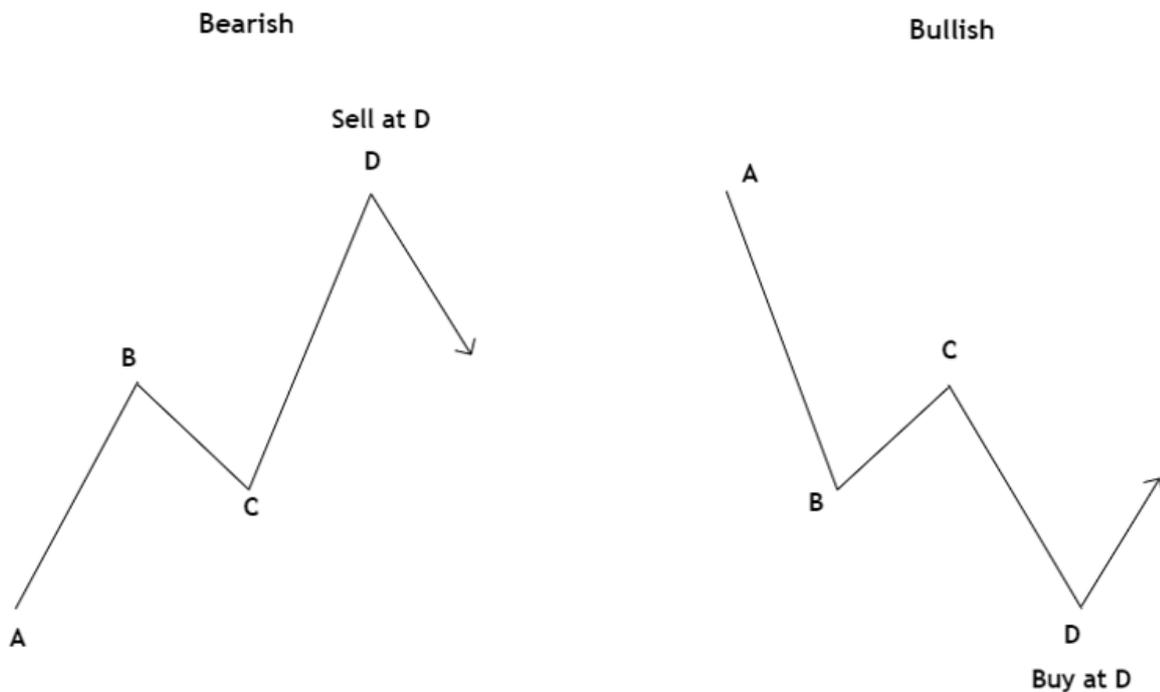


When combining price swings, you integrate smaller price swings with larger ones in the direction of the trend. This approach helps identify Fibonacci number convergence, such as a larger wave with a 38.2% Fibonacci retracement aligning with a smaller wave at the 61.8% level.

## Phase 5 : Fibonacci Play

A high-probability trade setup emerges when you have clearly defined a larger price swing (A-B) that includes smaller a, b, c, d waves.

- Once the most recent smaller wave a, b, c is established, there's a strong likelihood of Fibonacci number convergence between the smaller and larger C waves.
- Enter the trade at the point of convergence for the C wave support/resistance in the direction of the trend. For profit-taking, target the extension of the larger wave D.



## **Rules to Trading the Fibonacci Uptrend**

- Plot all trend-lines on the chart (inner, outer, and long-term) along with your four levels of support/resistance to assess the current market trend.
- Identify the most recent upward A and B waves and use the Fibonacci tool to draw the Fibonacci retracement and extension levels.
- Look for a buy entry at the Fibonacci convergence point for the C wave, complemented by another price action signal, such as a candlestick pattern or a previous resistance level that is now acting as support.
- Determine the projected Fibonacci D extension and consider the four levels of resistance. Identify the nearest resistance level close to the Fibonacci extension and set your target price 10 pips below this resistance level or the 161.8%/-61.8% level. (Note that after a bullish move, the market often pulls back.)

## **Rules to Trading the Fibonacci Downtrend**

- Plot all trend-lines on the chart (inner, outer, and long-term) along with your four levels of support/resistance to identify the direction of the current market trend.
- Locate the most recent downward A and B waves, and use the Fibonacci tool to draw the Fibonacci retracement and extension levels.
- Look for a sell entry at the Fibonacci convergence for the C wave, and confirm with an additional price action signal, such as a candlestick pattern or previous support now acting as resistance.
- Determine the projected Fibonacci D extension, keeping in mind the four levels of support. Identify the closest support level near the Fibonacci extension and set your target price 10 pips above this support level or the 161.8%/-61.8% level. (Note that after a bearish move, the market often pulls back.)

# Japanese Price Action Candlesticks

The origins of Forex candlestick charts trace back to Japan, where they were first used over five hundred years ago. Japanese traders initially employed these charts to analyze rice markets. Over time, this technique evolved into the modern candlestick charts utilized in Japan and by technical traders worldwide.

It wasn't until about 25 years ago that Western traders began adopting Japanese candlestick charts, with their popularity slowly growing in the U.S. trading community. Initially, there was skepticism due to the perceived difficulty and time consumption involved in learning the technique. However, with the rise of computers and programming, candlestick charts gained widespread acceptance.

Candlesticks provide a clear visual representation of market activity, offering the purest form of price action. They convey the same information as bar charts but with greater reliability and alignment with market movements. Unlike indicators, which do not enhance the reliability of candlestick patterns, candlesticks themselves offer visual confirmation of support and resistance levels.

Recognizing candlestick patterns involves identifying recurring arrangements of price bars that suggest future price movements. These patterns reflect past trader behavior and expectations, effectively communicating market sentiment in 'candle language.' This understanding influences traders' decisions and helps determine the market's directional bias.

It's crucial to interpret candlestick patterns within the context of the overall trend, support, and resistance levels. With over 50 bullish and bearish candlestick patterns, memorizing all names is less important than understanding the insights each candle provides. When analyzing charts, consider questions such as: What does the completed candle signify? Does it support or contradict previous candles? Did it break or close beyond previous highs or lows? Each new candle should be evaluated for its impact on your directional bias and its role in confirming, weakening, or negating it.

## Various Forms of the 'DOJI'

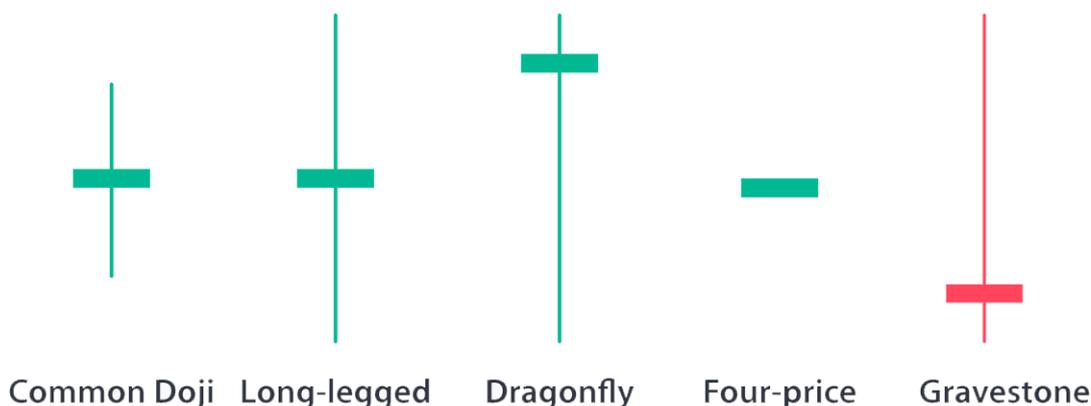
A Doji candlestick is characterized by having the same open and closing price, or with a body so small that it appears as a thin line.

Doji candles typically indicate indecision or a struggle for dominance between buyers and sellers. During the timeframe of the session, prices fluctuate above and below the opening price but ultimately close near or exactly at the open price. This outcome reflects a stalemate where neither bulls nor bears managed to establish control.

There are four distinct types of Doji candlesticks, distinguished by variations in the lengths of their upper and lower shadows, which can resemble a cross, inverted cross, or plus sign. The term 'Doji' is used for both singular and plural forms. When a Doji forms on a chart, it's important to pay close attention to the preceding candlesticks.

The Doji candlestick pattern holds significant importance as it signifies a balance between supply and demand in the market, often signaling a potential trend reversal. By indicating that prices opened and closed at or near the same level, a Doji highlights investor indecision. Recognizing a Doji is crucial in trading analysis. For instance, if a Doji appears after a prolonged uptrend, it warns investors that the trend may be nearing its peak or has already done so. Conversely, after a long downtrend, a Doji suggests that selling pressure may be exhausted, potentially signaling a reversal where prices could start rising.

### Types of Doji



## Long-legged Doji

This Doji candlestick pattern features long upper and lower shadows that are nearly equal in length. It is crucial for traders to assess the candle's close relative to its midpoint. A close below the midpoint suggests weakness. The Long-legged Doji pattern signifies that prices fluctuated significantly above and below the session's opening level, but ultimately ended close to the opening price, showing minimal net change.



## Dragonfly Doji

This Doji pattern occurs when the open, high, and close prices are the same, while the low creates a long lower shadow. The Dragonfly Doji suggests that although sellers drove the prices down during the session, buyers managed to push the prices back up to the opening level by the end of the session, reaching the session high. Resembling a “T” with a long lower shadow and no upper shadow, the Dragonfly Doji is an important pattern to understand.



## Gravestone Doji

The Gravestone Doji is the inverse of the Dragonfly Doji, resembling an upside-down “T.” It features a long upper shadow and no lower shadow, with the open, low, and close prices being equal. The high price creates the long upper shadow. This pattern indicates that although buyers drove the prices up during the session, sellers managed to bring the prices back down to the opening level by the end of the session.



## Four Price Doji

The Four Price Doji pattern is characterized by a candlestick with a body that is very short or nonexistent, and no upper or lower shadows, or if present, they are extremely short. Though rare, this pattern vividly reflects a state of complete indecision and uncertainty in the market, indicating a potential trend reversal. It is typically observed on lower timeframes.



## The Spinning Top

Candlesticks with long upper and lower shadows and small real bodies are known as ‘spinning tops’. The color of the real body is less significant, as this pattern primarily reflects indecision between buyers and sellers, or bulls and bears.

The small real body (whether green or red) indicates minimal movement between the open and close, while the long shadows show that prices fluctuated significantly during the session. Despite the session opening and closing with little change, the extensive shadows reveal a struggle between buyers and sellers, with neither side gaining dominance.

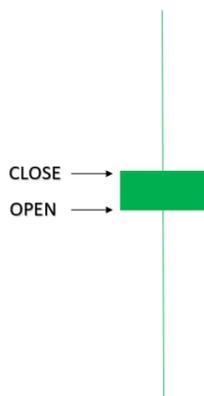


## Phase 6 : Japanese Price Action Candlesticks

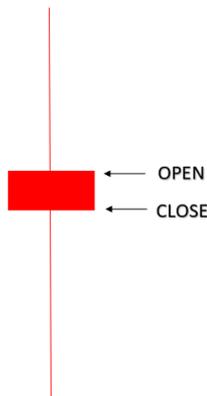
When a spinning top or a series of spinning tops appear during an uptrend, it often signals that buying interest is waning, suggesting a potential reversal in direction. Conversely, if a spinning top or multiple spinning tops form during a downtrend, it typically indicates that selling pressure is diminishing, which could also point to a potential reversal in direction.



**Bullish Spinning Top:**



**Bearish Spinning Top:**



## The Hanging Man

The Hanging Man is a bearish candlestick pattern that appears at the end of an uptrend. It forms when a substantial sell-off occurs near market highs, but buyers manage to drive the price back up, closing it at or near the opening price. This significant sell-off often signals that buyers (bulls) are beginning to lose their grip on the market.



As previously mentioned, the Hanging Man pattern is bearish when it appears after a significant uptrend. However, if this pattern forms after a substantial downtrend, it is known as a Hammer. Both patterns are characterized by small red bodies (indicating a small difference between the opening and closing prices) and a long lower shadow (showing that the low was significantly below the open, high, and close).

The Hanging Man has little to no upper shadow and features a lower shadow that is at least twice the length of the body. In contrast to the Hammer, where the lower shadow signals buying pressure, the lower shadow of the Hanging Man indicates selling pressure. This pattern is especially effective as a price action trade setup when it occurs at a resistance level.

## Phase 6 : Japanese Price Action Candlesticks

Step 1 involves precisely marking the Hanging Man candlestick pattern using the rectangle tool, ensuring that the box accurately covers the top and bottom wicks. Extend the rectangle to the right to allow the price action to develop. This setup chart is then used to move to the next lower timeframe for execution. For example, if you start with a weekly Hanging Man pattern, the next step is to shift to the daily timeframe.

The process is as follows:

- WEEKLY > DAILY
- DAILY > H4
- H4 > H2



## Phase 6 : Japanese Price Action Candlesticks

After highlighting the candlestick, move down to the appropriate timeframe (as detailed on the previous page). For instance, if a Hanging Man pattern is identified on the weekly chart, transition to the daily timeframe to apply the execution rules (as shown below). This approach provides a more refined view of price action. Instead of taking a 50-50 sell trade immediately after the Hanging Man forms, wait for a moving average crossover and a clear candlestick break below the range. This strategy helps you confirm a reversal in momentum, ensuring that resistance has held and the trend is shifting downward.

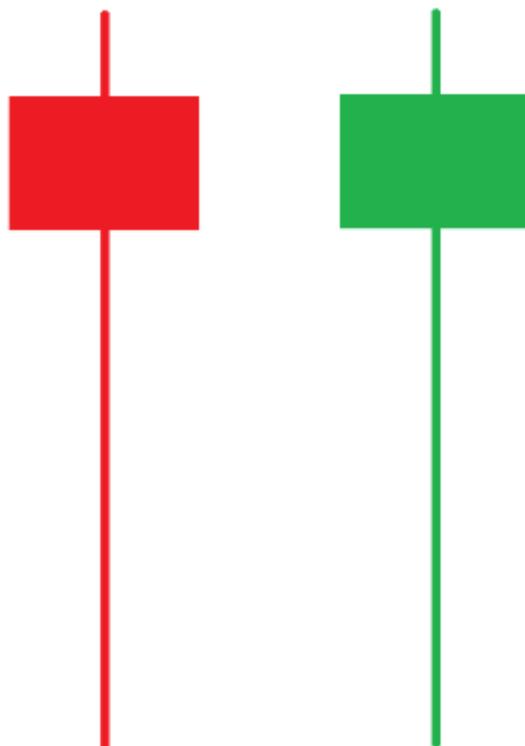


## The Hammer (also known as a Pin Bar)

The Hammer and Hanging Man candlestick patterns appear similar but convey different signals based on previous price action. Both feature small bodies (either green or red), long lower shadows or wicks, and short or nonexistent upper shadows or wicks.

The Hammer is a bullish reversal pattern that forms at the end of a downtrend. It earns its name because it signifies that the market is “hammering” out a bottom. When the market is falling, a Hammer suggests that the decline may be nearing its end and that prices could begin to rise. The long lower shadow or wick indicates that while sellers pushed the price down, buyers managed to drive the price back up, closing near the opening price.

However, seeing a Hammer does not automatically warrant a buy order. Additional bullish confirmation is needed before acting on the signal. Use the Hammer as an indication of a potential upside reversal rather than a definitive buy signal.



## The Shooting Star

The Shooting Star formation occurs when the open, low, and close prices are nearly identical, with a long upper shadow, typically at least twice the length of the real body. If the low and close prices are the same, the pattern is a bearish Shooting Star, indicating a stronger bearish signal. This is because it demonstrates that the bears have not only rejected the bulls' advance but have also pushed prices down, closing below the opening price.

The long upper shadow of the Shooting Star suggests that the market tested for resistance and supply levels. Upon reaching the resistance area or daily highs, the bears started driving prices lower, bringing the close back near the opening price. This indicates that the bullish momentum was effectively countered by the bears.

In essence, a Shooting Star signals that the preceding uptrend may be ending and could reverse into a downtrend or enter a consolidation phase. This pattern is a strong sell signal when observed at a resistance level. It is advisable to place a sell trade after the candle closes, with a stop loss set 10 PIPs above the resistance area.



## Phase 6 : Japanese Price Action Candlesticks



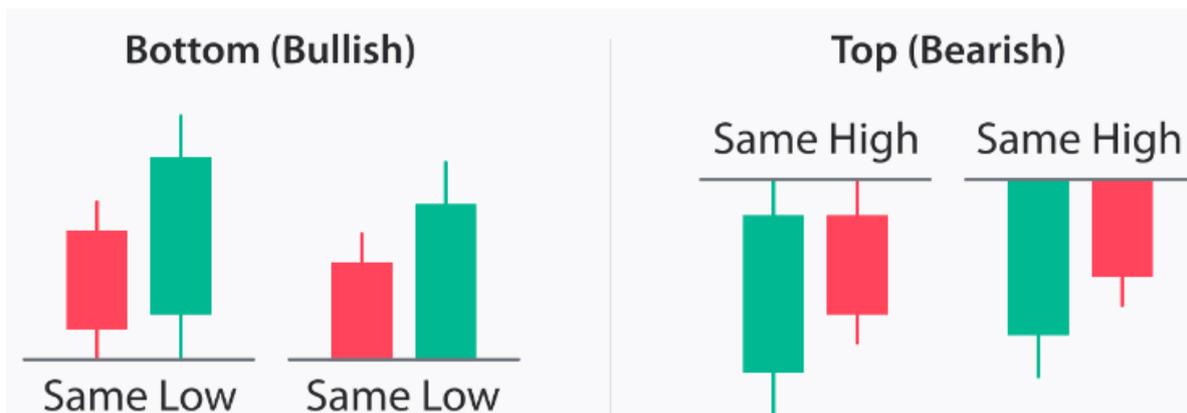
CycleForecast published on TradingView.com, Aug 16, 2022 03:30 UTC-4

British Pound / Swiss Franc, 4h, FX/CA O1.14077 H1.14090 L1.13860 C1.13970 -0.00107 (-0.09%)



## Tweezer Tops and Tweezer Bottoms

The Tweezers pattern consists of two candlesticks that signal a potential reversal. Typically observed after a prolonged uptrend or downtrend, this pattern suggests that a change in direction is imminent. The formation resembles a pair of tweezers, with the two candlesticks mirroring each other in shape.



## **The Most Effective Tweezers have the Following Characteristics**

- The first Tweezer candle is the same as the overall trend, if price is moving up, then the first candle should be bullish/green.
- The second candle is the opposite of the prevailing trend. If price has been moving up, then the second Tweezer candle should be bearish/red.
- The shadows/wicks of the candles should be of equal length. Tweezer tops should have the same highs (roughly) whilst Tweezer bottoms should have the same lows.

Tweezer tops/bottoms are high probability price action reversal patterns that can be found on a range of timeframes. This setup is as powerful as the shooting star as it gives a clear indication that the price tried to reach higher on two occasions but was rejected, forming a clear point of resistance. These are best when traded from a point of previous resistance with a stop loss placed 10 PIPs above/below the shadow/wick highs or lows.

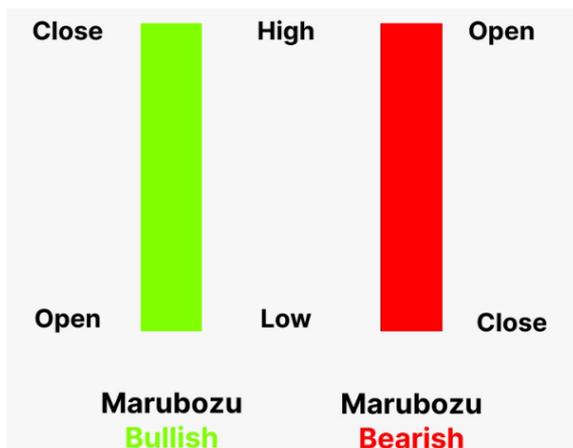
## The Marubozu

Marubozu candles are characterized by their lack of shadows or wicks at either end of the body. The high and low of the candle align with the open and close prices, depending on whether the candle is green (bullish) or red (bearish).

A green (bullish) Marubozu features a long green body with no shadows or wicks at the close. This candle indicates strong bullish sentiment, showing that buyers controlled the price throughout the entire timeframe of the candle. It often signals the beginning of a bullish continuation or reversal pattern.

Conversely, a red (bearish) Marubozu has a long red body with no shadows or wicks at the close. This candle signifies strong bearish sentiment, demonstrating that sellers dominated price action for the full duration of the candle. It usually suggests a bearish continuation or reversal.

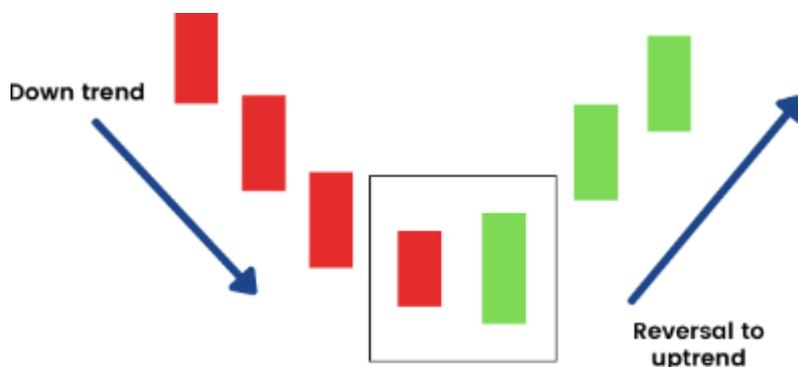
The significance of the Marubozu pattern increases with the timeframe. Longer timeframes, such as weekly or daily charts, provide a stronger indication of continued momentum in the direction indicated by the Marubozu candle.



## Bullish Engulfing Formation

A Bullish Engulfing pattern typically appears at the end of a downtrend or consolidation range, often at support levels. It is characterized by a small red candlestick followed by a large green candlestick that completely “engulfs” the body of the previous red candlestick.

This pattern signals a shift in market sentiment from bearish to bullish, as the large green candle advances and closes at or near the highs of the preceding candle. It indicates that buyers have taken control of the market after the open. The strength of the reversal is generally proportional to the extent of the engulfing. High trading volume during the formation of the green candle provides additional confirmation of a short-term reversal.



## Bearish Engulfing Formation

A Bearish Engulfing pattern typically forms at the peak of an uptrend or within a consolidation range at resistance levels. It occurs when a small black candlestick is followed by a larger white candlestick that completely “engulfs” the body of the previous candlestick.

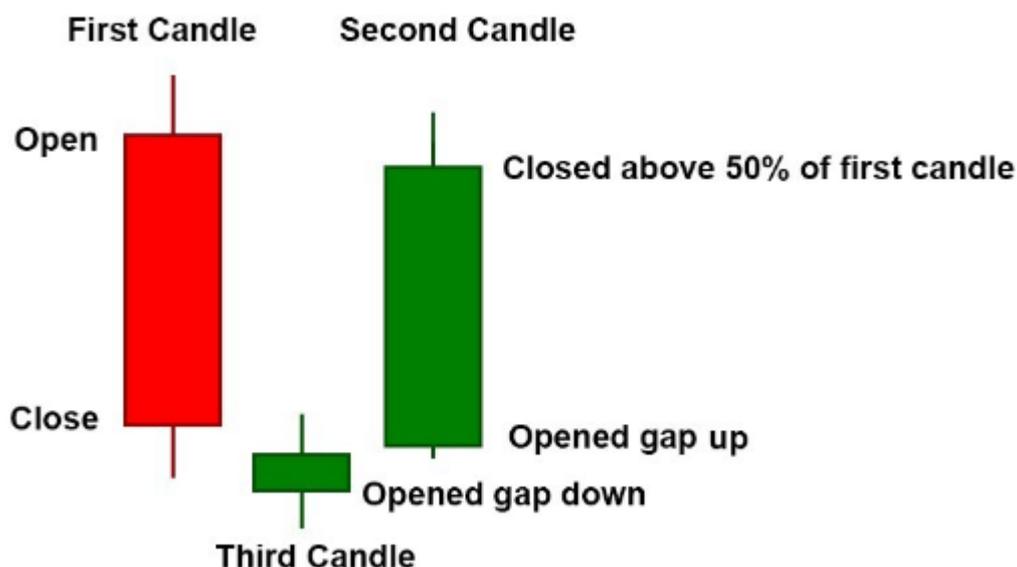
This pattern signals a shift in market sentiment from bullish to bearish, as evidenced by the large red candlestick that closes at or near the lows of the preceding candle. It indicates that sellers have gained control after the open and are dominating the price action. The larger the engulfing candlestick, the stronger the bearish reversal. High trading volume during the formation of the red candlestick serves as an important confirmation of the short-term reversal.



## The Morning Star Formation

The Morning Star pattern consists of three candlesticks. For simplicity, we will use daily candles in our examples.

The pattern begins with a Bearish/red candlestick that indicates a strong selling momentum. The second candlestick can be a Spinning Top, Doji, or Hammer/Pin Bar, representing indecision and a pause in the downward trend. The third candlestick is a Bullish/green candle that should close within the upper 40% of the range of the first Bearish/red candle. After this bullish confirmation, a buy trade can be initiated at the opening of the following candlestick.



## The Evening Star Formation

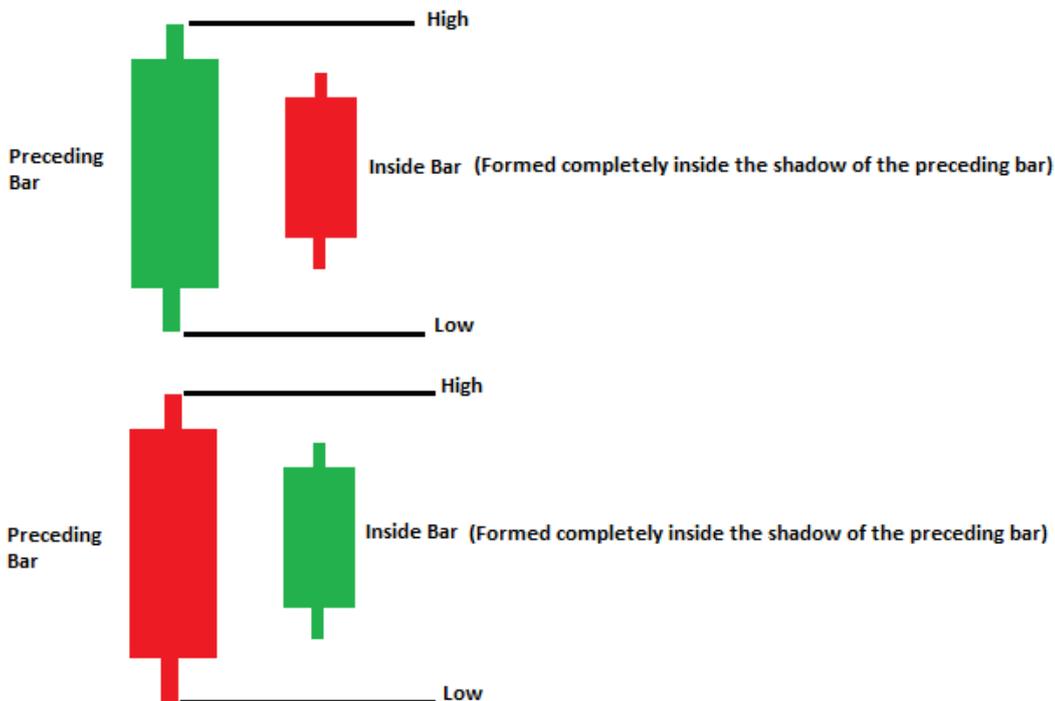
The Evening Star pattern is composed of three candlesticks. For clarity, once again we will use daily candles in our examples.

The pattern begins with a Bullish/green candlestick, indicating strong buying momentum. The second candlestick can be a Shooting Star, Doji, or Spinning Top, reflecting indecision and a pause in the upward movement. The third candlestick is a Bearish/red candle that should close within the lower 40% of the range of the initial Bullish/green candle. After this bearish confirmation, a sell trade can be initiated at the opening of the following candlestick.



## The Inside Bar Formation

The Inside Bar pattern comprises two candles, with the second candle entirely contained within the range of the first candle (known as the mother bar). This formation is a high-probability price action trading strategy that offers a favorable risk-reward ratio, as it generally requires smaller stop losses compared to many other setups.



An Inside Bar pattern signifies a period of indecision or consolidation. Inside Bars often appear as the market consolidates following a significant directional move or at critical turning points and key support and resistance levels.

To trade the Inside Bar setup effectively, start by identifying the high and low of the initial mother candle. The market is likely to break either the high or the low and continue in that direction. Therefore, place a buy stop order 5 PIPs above the mother candle's high and a sell stop order 5 PIPs below the mother candle's low. Position your stop loss 15 PIPs beyond the opposite end of the mother candle. Once the price breaks out, you will be positioned in the trade. If the market reverses, cancel the other stop order to avoid being triggered. Set your target levels according to previous support and resistance zones.

### Wrapping up Price Action Candlesticks

As discussed in the introduction to candlestick patterns, there are many additional formations beyond those covered here. We have focused on the most useful and high-probability patterns to help you trade the market effectively.

Keep in mind that these candlestick patterns become even more powerful when combined with other technical analysis tools. Integrate them with chart patterns, Fibonacci levels, support and resistance, and so on. Your success will depend on your practice and analysis—logging observations, saving before-and-after shots of potential trades, and so forth. Additionally, understanding candlestick formations is crucial for determining optimal exit points in your trades.

## Phase 6 : Japanese Price Action Candlesticks

Learn, learn and learn! With repetition and dedication it will get easier over time as you progress and memorise the candlestick patterns.

1. Various forms of the 'DOJI'
2. The Spinning Top
3. The Hanging Man formation
4. The Hammer (also known as a Pin bar)
5. The shooting Star
6. Tweezer Tops and Tweezer Bottoms
7. The Marubozu
8. Bullish & Bearish Engulfing Formations
9. The Morning Star and evening star formations
10. The Inside Bar Formation

## **Technical Charting Patterns**

Price action progresses through distinct phases, and market movements are never random. The patterns discussed here are commonly observed on charts. We will explore how to interpret these patterns and integrate their specific rules with other aspects of technical analysis.

### **The Head and Shoulders Pattern**

The standard head and shoulders pattern shown on the previous page is a price action signal suggesting that a currency pair is likely to decline upon completion of the pattern. It typically forms at the peak of an uptrend. There is also an alternate version called the head and shoulders bottom or inverse head and shoulders. This pattern is the reverse of the standard one and indicates that a currency pair is poised to rise, usually forming at the end of a downtrend. In both cases, the head and shoulders pattern signals an impending reversal, implying that the currency pair is likely to move against the current trend.

### **Neckline**

Both the head and shoulders patterns share a similar structure, consisting of four key components: two shoulders, a head, and a neckline. The pattern is considered a confirmed trade setup when the price breaks through the neckline or trendline (a level of support or resistance) following the formation of the second shoulder. For instance, an uptrend is characterized by a series of rising peaks and dips (retracements), whereas a downtrend features successive falling peaks and pullbacks. The head and shoulders pattern signifies a weakening trend, showing a decline in the strength of the peaks and retracements.

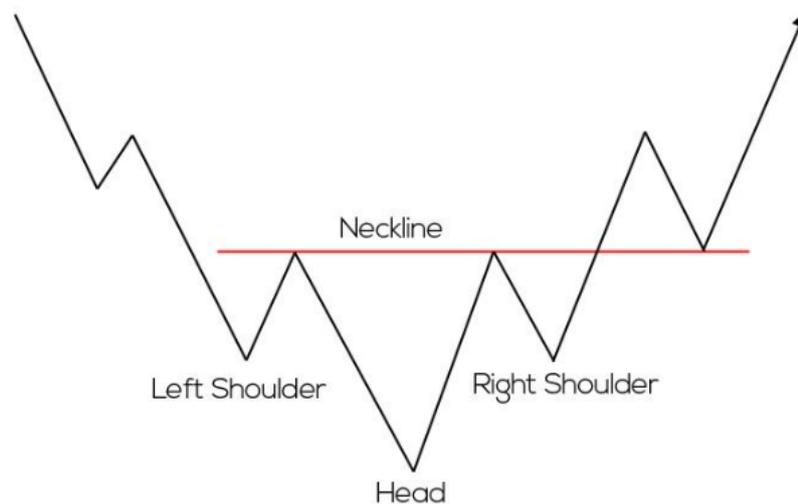
## **Head and Shoulders Top**

- The pattern consists of four key sequential steps that must occur for it to complete and signal a reversal.
- The left shoulder forms when the currency pair reaches a new high, then retraces slightly to a new low.
- The head forms when the currency pair reaches an even higher high, then declines back to near the low established during the left shoulder.
- The right shoulder is formed when the price reaches a high slightly lower than the head but then retraces back to the lows of the left shoulder.
- Finally, the price breaks the neckline or trendline, meaning it falls below the support level, breaking through the three lows created by the head and left shoulder.

## Head and Shoulders Bottom (Inverse Head and Shoulders)

The inverse head-and-shoulders pattern is the mirror image of the head-and-shoulders top and signals that the currency pair is poised to rise.

- The left shoulder forms when the price initially drops to a new low and then rebounds to a new high.
- The head forms when the price dips to a low below the left shoulder's low and then recovers to the previous high, establishing the neckline for the pattern.
- The right shoulder typically forms with a decline less pronounced than the one seen in the head, followed by a rise back to the neckline.
- The pattern is completed when the price breaks above the neckline or trendline, indicating a bullish reversal as it moves above the previously established neckline.



## Phase 7 : Technical Charting Patterns

The head and shoulders chart pattern is defined by three main features and can be observed across various timeframes, though it is most effective on the Daily and H4 charts.

Here's how to identify a Head and Shoulders formation:

- Left Shoulder: In an uptrend, the price approaches a significant resistance level. A bearish candlestick formation often emerges, triggering a notable pullback.
- Head: The price then rises to form a new high before reversing again, creating a peak that is higher than the previous shoulder.
- Right Shoulder: Subsequently, the price rises once more but fails to surpass the peak of the head, resulting in a lower high compared to the head.



## Once Head and Shoulders Plays Out

After accurately identifying the head and shoulders pattern, draw the 'neckline' by connecting the lowest points of the two troughs. This allows you to anticipate a potential downward breakout.

## Take a Look at the Example

The right shoulder, or lower high, indicates a potential decline when it breaks the neckline. This breach and the nearby area below are excellent opportunities for selling. If you choose to enter a short trade, placing your stop loss above the right shoulder is an ideal strategy.

## Phase 7 : Technical Charting Patterns



We can calculate a target level by measuring the distance between the highest point of the head and the neckline. This distance is duplicated onto the breakout point, thus giving you your target level as displayed on the above chart.

## Inverse Head and Shoulders

The same pattern can be applied in bearish market conditions, but in reverse. The rules are essentially the same, only inverted. After the neckline is broken, you should anticipate a bullish setup.

When executing a long trade, you should place your stop loss around the right shoulder. To determine your target level, measure the distance from the valley of the head to the neckline and project that distance from the breakout point.



## The Double Top and Bottom

One of the most frequently observed chart patterns in trading is the double top/bottom. Its regular appearance on charts suggests that price action is not as random as some might believe. As previously discussed, price charts reflect the collective sentiment and biases of traders. Specifically, the double top/bottom pattern indicates a retest of temporary lows and highs, also referred to as support and resistance.

### The Double Top

Double tops typically occur during an uptrend when prices reach a new high, followed by a pullback and a subsequent retest of that high. If the retest fails to exceed the price level set by the initial peak, the price will often bounce off the resistance level, creating a pattern that resembles an 'M' on the chart. The second peak doesn't need to match the exact price of the first peak but should be reasonably close. This pattern generally signals a weakening trend, suggesting that buying interest is diminishing, as illustrated below.



Once a short trade signal is confirmed from the double top pattern, the neckline serves as a strong target. Always consider the broader directional bias provided by the higher timeframes.

## Phase 7 : Technical Charting Patterns

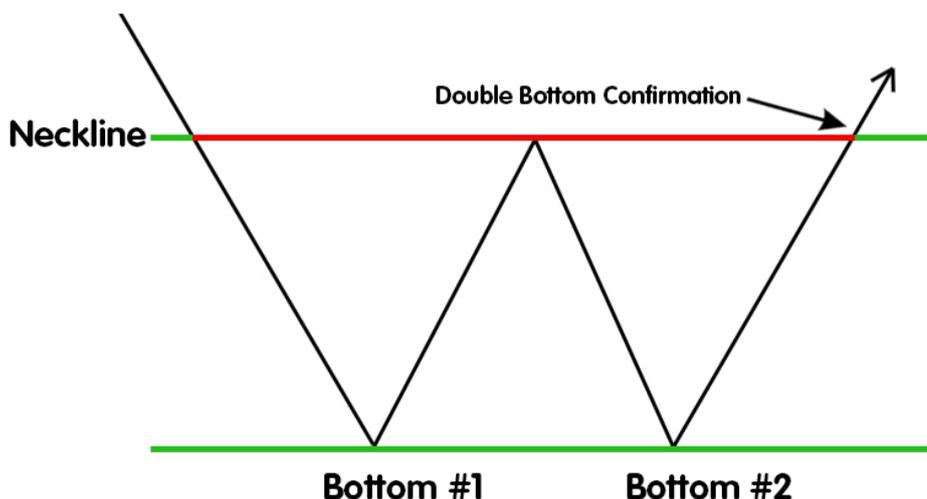
A double top signals a significant selling opportunity by highlighting key resistance levels that the price struggles to break. In this pattern, the market will reach a strong resistance level twice, with the second peak forming a distinct bearish candlestick pattern that suggests a potential reversal to the downside.

After the initial rejection from the resistance level, the price typically falls and establishes a base known as the 'Neckline.' The price then attempts a second test of the same resistance level, which is marked in the image below. Often, the price may briefly exceed the resistance, creating a new high if the trend is bullish. Double tops are most effective for indicating reversals at weekly and monthly resistance levels when analyzed on Daily or H4 charts.



## The Double Bottom

A double bottom is the inverse of a double top. This pattern typically forms during a downtrend and signals a potential reversal from a downtrend to an uptrend. It is easily identifiable by its resemblance to the letter 'W'. Initially, the price declines to a support level at the first bottom, then rallies to a temporary high, creating the middle peak of the 'W'. Following this, the price dips again to the same support level as the first bottom before rallying upward once more. The pattern and trend reversal are confirmed when the price breaks through the upper resistance level, completing the formation as shown below.



These are the most basic pattern structures of double tops and bottoms that can be found on the charts. As you can see, the key levels of support and resistance are absolutely vital when it comes down to pattern structures and clean chart price action setups. We will now go into some more advanced price action setups surrounding double tops and bottoms.

This second rejection confirms the double bottom formation; ideal for a buying opportunity or even an exit if you have been holding a short trade over a considerable period of time.

## Double Top and Double Bottom Variations

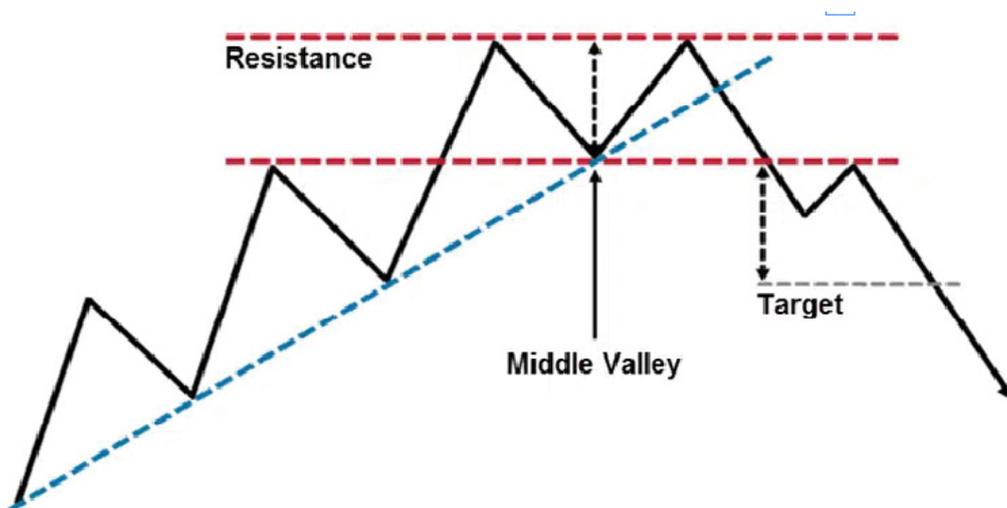
Various forms of double top and double bottom patterns can be observed in the market. These patterns may signal trend reversals or serve as corrective movements within the existing trend, as illustrated below.



Here are several variations of double tops and bottoms:

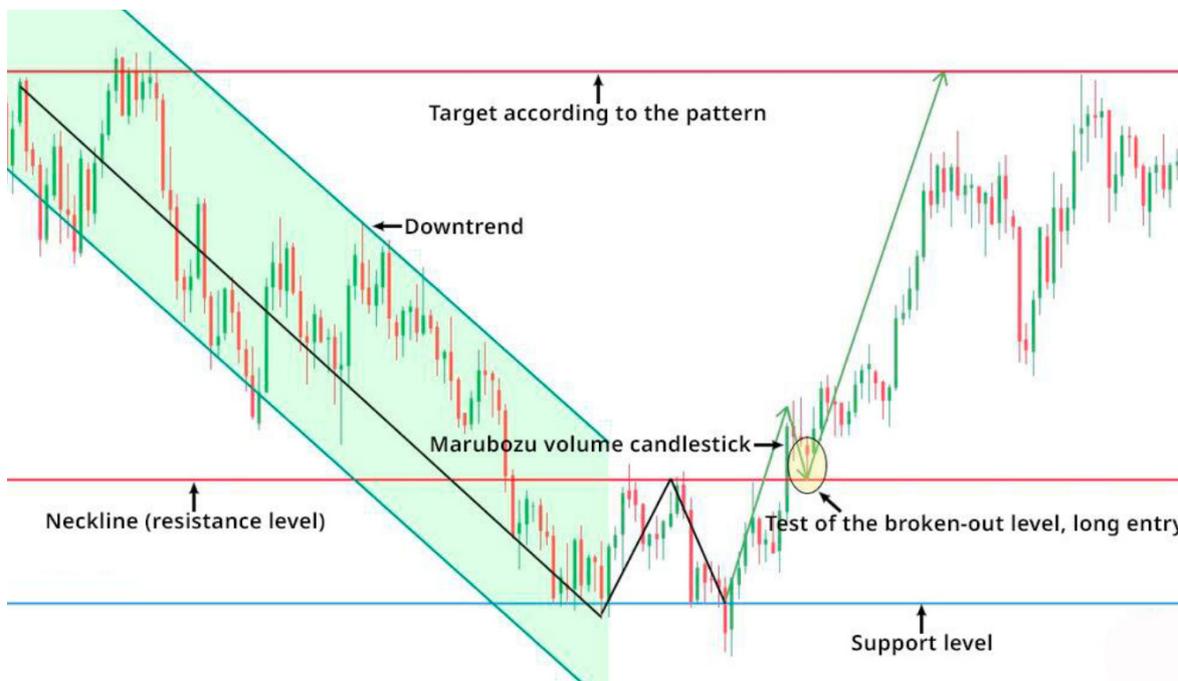
- Traditional Double Tops/Bottoms: These patterns have a higher likelihood of breaking out to the upside or downside.
- Corrective Double Tops/Bottoms: These are more likely to continue in the direction of the current trend, particularly if they occur at key Fibonacci retracement levels such as 50% or 61.8% (more on this later).
- Overbalanced Double Tops/Bottoms: In these cases, the correction leading up to the double top or bottom is more extensive than the preceding correction. This pattern has a greater potential for a reversal, and it may even spike above or below the resistance or support level, creating a false breakout before the actual reversal occurs.
- Running Double Tops/Bottoms: These patterns may eventually reach a new high or low if the reversal aligns with the current trend, especially when the support or resistance level coincides with a 50% or 61.8% Fibonacci retracement level.

## Double Top and Double Bottom Breakout Patterns (Rectangles and Wedges)



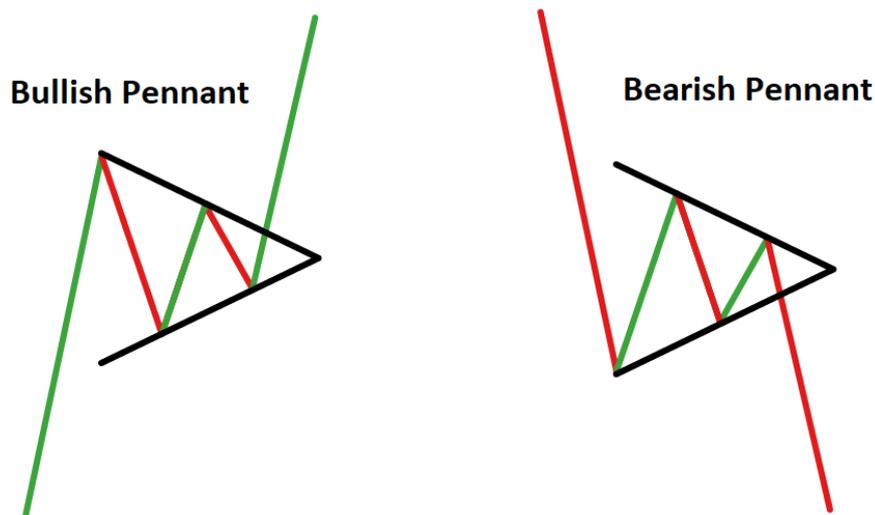
## The Double Bottom Reversal and Breakout Trade

Typically, after a reversal at a double bottom, you'll have a chance to enter a long position during the first correction. By then, the upward move will have gained credibility. One of the simplest strategies is to sell double bottom breakouts. These breakouts are popular among experienced traders because they often trigger significant reactions, with many institutional investors being caught off guard, even if only temporarily.



## **Pennants and Triangles**

forex trading, the pennant pattern forms through a period of consolidation and price buildup before a breakout or continuation of the existing market trend. Pennants are continuation patterns that resemble the triangle pattern, both characterized by lower highs constrained by a descending resistance trendline and higher lows confined by an ascending support trendline, as illustrated in the example below.



- A pennant must follow a significant, steep price move resembling a flagpole. Without this initial flagpole, the formation is considered a triangle rather than a pennant.
- Pennants are continuation patterns that typically break out in the direction of the preceding trend.

The two trendlines forming the pennant converge at a point known as the 'apex'. While this description may seem similar to a triangle, there are additional characteristics that distinguish a pennant from a triangle. We will explore these differences in more detail on the following pages.

## **Pennants are a Form of Consolidation**

Pennants typically develop after a major announcement or significant breakout. They may also form just before such announcements, serving as a period of consolidation. Additionally, pennants can appear when prices reach a level where traders are content to buy or sell, neither exceeding nor falling short of this value.

## **When Traders Spot a Pennant, Which is a Form of Consolidation, They most Often Anticipate a Breakout**

A breakout occurs when prices move out of a sideways pattern, such as a pennant, accumulation phase, or triangle, and breach either support or resistance levels. For a high-probability pennant, flag, or triangle breakout, it's crucial to trade in the direction of the prevailing trend. If the bulls gain control, the market will break upward and set new highs. Conversely, if the bears dominate, the market will break downward and set new lows.

## **Different Shaped Pennants that Appear on a Range of Time Frames**

- Flag pole pennants
- Ascending triangle pennants
- Descending triangle pennants
- Diamond pennants

## **Rules for Trading the Pennants in the Buy and Sell Zones**

- Identify and Draw All Trendlines: Map out all trendlines—inner, outer, and long-term—to assess if the market is in an uptrend or downtrend. Look for any broken trendlines, which could indicate a potential trend reversal.
- \*Draw Pennant Trendlines: Plot the trendlines of the pennant pattern and identify the type of pennant you are dealing with.
- Define Buy and Sell Zones: Establish your entry and exit zones while also noting the potential resistance or support on the opposite side of the trendline after the pennant breakout.
- Stop Loss Placement: Regardless of the type of pennant—whether it's a diamond, ascending, descending, or flagpole pennant—the stop loss placement remains consistent.
- Breakout Directions: Diamond and flagpole pennants can break out in either direction, independent of the previous trend. Ascending pennants are more likely to break out to the upside, while descending pennants typically break out to the downside.
- Wait for Confirmation: Look for confirmation with a fully-formed bullish or bearish candle outside the pennant. Place your stop loss 10 to 15 pips above or below the most recent high or low.
- Manage Risk: If the stop loss is too high for your risk tolerance, consider passing on the trade. Remember, pennants are consolidation patterns that often precede significant fundamental announcements.

## Phase 7 : Technical Charting Patterns

The ascending triangle is the inverse of the descending triangle. Like most chart patterns and formations, it can be utilized effectively in both bullish and bearish market conditions.



The example above displays the dynamics of a triangle in a bullish market.

## Triangle Formations

When a currency pair is poised for a sharp continuation move, triangles can present an excellent opportunity for breakout traders. This chart pattern forms as price action consolidates over a short period. The key to trading triangles effectively is to wait for the breakout in the direction of the prevailing trend, which can be observed on weekly or daily charts.



This pattern should be approached with caution, as it can often produce false breakouts in the opposite direction before resuming the original trend. The type of triangle pattern you encounter will help you gauge and capitalize on the situation more effectively.

Descending triangle formations are commonly observed in bearish markets. As illustrated in the descending triangle example, this pattern appears when a support level holds firm while the price forms a series of lower highs, suggesting a continuation of bearish momentum as sellers outpace buyers.

The resistance level, defined by the series of lower highs, should be drawn by connecting at least two wicks. To project your target point, measure the height of the triangle's mouth and extend this distance from the breakout point.

## Phase 7 : Technical Charting Patterns

### 1. Monthly Main Range (up to 1000 PIPS)

- Measure the range using the arrow tool and duplicate both sides to prepare for potential upward or downward momentum (create three ranges in total).
- Add horizontal lines to the arrows.
- Insert thin rectangle strips at key levels (clone and apply to all significant levels).
- Label these levels appropriately (e.g., “Monthly Key Support 1: 0.79).

### 2. Weekly Timeframe

- Plot weekly mid-range levels.
- Use the Fibonacci tool: Start from resistance (top) and extend to support (bottom).
- Draw a horizontal line at the 50% (0.5) level and remove the Fibonacci tool afterward.
- Apply this to all three monthly ranges, leaving the weekly key levels unchanged.
- Label the weekly mid-range levels (e.g., “Weekly Mid-Range Resistance: 0.96).
- Check and label the moving average situation (e.g., crossed up, crossed down/bullish, bearish).

### 3. Daily Timeframe

- Plot any key levels using the rectangle strip. Use the H4 chart for alignment with the daily.
- Use horizontal thin strips for daily/H4 key levels and adjust the color if necessary.
- Avoid forcing key levels if not visible; stick with the weekly and monthly levels until price action provides clarity.
- Check and label the moving average situation (e.g., crossed up, crossed down/bullish, bearish) with both weekly and daily alignments.

## Phase 7 : Technical Charting Patterns

### 4. Marking Trends

- Identify higher highs and higher lows in an uptrend or lower highs and lower lows in a downtrend on the daily/H4 timeframe.
- Anticipate potential new higher highs or lower lows.

### 5. Applying Trend Lines

- Draw trend lines on the chart to clarify market direction.
- Use daily and weekly trend lines for overall direction. Be aware of the significance of the third trend line touch/bounce and trend-line break rules (on weekly and daily charts).
- Apply counter trend lines on H4 and H2 charts once you understand the overall trend direction. Trade breakouts in the trend direction, considering moving average crossovers.

### 6. Applying Fibonacci

- Use weekly and daily Fibonacci levels as directional guides. If the C-Retracement is missed, consider D extension targets for directional bias.
- H4 and H2 Fibonacci levels are useful for entries. Extra confidence is gained when extension levels overlap key weekly or monthly levels, providing additional confluence.
- Combine Fibonacci with inside bars, counter trend line breaks, and moving average crossovers for trading.
- Note that a close above/below the 78.6% Fibonacci level might invalidate the A-B-C-D move; use it as a stop loss level (not on daily/weekly charts).

### 7. Entry Strategy: Inside Bar Setup

- Monitor currency pairs and analyze candlesticks using the above techniques to determine the overall market direction/bias.
- Look for inside bars to assist in entries once a clear trend direction is established. Focus on the best two setups across currency pairs.
- Inside bars on the daily/H4 charts are the most reliable.
- Follow the rules: highlight the inside bar, step down to the next timeframe, await moving average crossover, and execute on the closing bar.

## Phase 7 : Technical Charting Patterns

The phrase, “You are only as good as your last trade,” has some merit, but as a dedicated professional trader, it’s crucial to review your trading performance over the past month.

In a demo account, you might be accustomed to erasing significant losses with a simple click, but real trading doesn’t work that way. Facing your mistakes can be uncomfortable, yet it’s essential for enhancing your trading skills.

Evaluating your trading performance will offer valuable insights into your trading style and preferences. Reflect on the following questions:

- Which currency pairs yield the best results for you?
- Which pairs consistently lead to losses?
- What times of day are you most profitable?
- When did your losing streaks start and end?
- On which days do you perform best?
- Do you succeed more with long-term trades or short-term scalping?

While anyone can open a chart and apply various technical indicators, the effectiveness lies in the correct application of those indicators. In fact, about 70% of traders misuse technical analysis.

Misplaced trend lines or key levels can set you up for failure even before executing a trade. Fortunately, modern technology provides a solution. By taking screenshots of your charts before and after trades, you can evaluate whether you are applying technical analysis tools accurately.

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Before:

After you've completed your technical analysis and are preparing for your optimal entry point, take a screenshot of your chart. Ensure the screenshot is taken at the timeframe you will be using for your trade and includes the price and time details displayed at the bottom. Name the file with the currency pair and the date.

After:

Regardless of whether your trade aligns with your initial analysis or not, taking a second screenshot is crucial. This will serve as a reference for future trades.

If your trade executes as anticipated, that's excellent; continue with your current strategy. However, if it does not go as planned, the screenshot will help you analyze what went wrong and avoid making similar mistakes in the future.

Maintaining discipline in your post-trade analysis is essential. Over time, these analyses will build a comprehensive history of your trading activity, providing a foundation for evaluating your current performance and tracking your progress.

Professional traders treat each trade as a discrete transaction, making the maintenance of a trading log vital. By combining this log with your post-trade analysis, you will create a robust trading journal that supports your development into a successful trader.



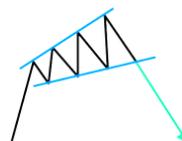
Bearish Double Top



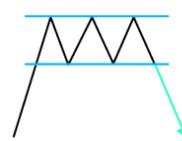
Bearish Head and Shoulders



Bearish Rising Wedge



Bearish Expanding Triangle



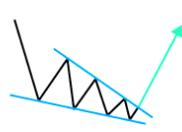
Bearish Triple Top



Bullish Double Bottom



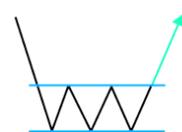
Bullish Inverted Head and Shoulders



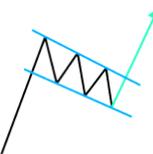
Bullish Falling Wedge



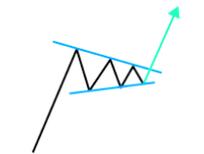
Bullish Expanding Triangle



Bullish Triple Bottom



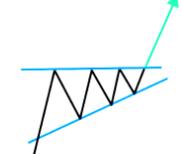
Bullish Flag Pattern



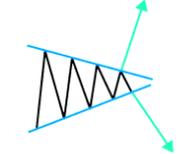
Bullish Pennant Pattern



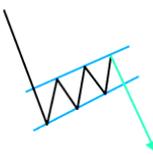
Bullish Falling Wedge



Ascending Triangle



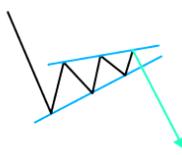
Symmetrical Triangle



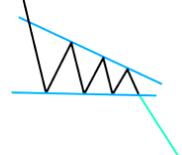
Bearish Flag Pattern



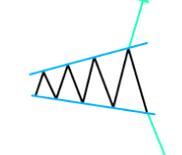
Bearish Pennant Pattern



Bearish Rising Wedge



Descending Triangle



Symmetrical Expanding Triangle

## Phase 7 : Technical Charting Patterns

You should record every trade you make, preferably in a spreadsheet. Update this spreadsheet as you enter and exit trades. Once your trades are closed, use this detailed record to evaluate your trading performance. Consider including the following columns:

- Currency Pair
- Position (Long/Short)
- Date Opened
- Time Opened
- Date Closed
- Time Closed
- Stop Loss or Take Profit
- Win or Loss

Since each trader has their own methods, there is no single “correct” format for your spreadsheet. It should be a helpful tool, not a chore, so customize it to suit your preferences.

While creating your spreadsheet is straightforward, maintaining it consistently is where many traders fall short. Integrate updating your spreadsheet into your trading routine. Avoid procrastinating by telling yourself, “I’ll do it later,” as this can lead to incomplete records and hinder your ability to review and learn from your trades.

Date	Time	Account	Symbol	Side	Qty	Price	Net	Commission	Fees	Notes	Options
08-17-2016	13:57:06	FX Account	EURUSD	Buy	1	\$1.12705		\$0.00	\$0.00	...	
08-17-2016	13:58:06	FX Account	EURUSD	Sell	1	\$1.12804	\$990.00	\$0.00	\$0.00	...	
08-17-2016	13:58:20	FX Account	EURUSDMINI	Sell	1	\$1.12804		\$0.00	\$0.00	...	
08-17-2016	13:58:34	FX Account	EURUSDMINI	Buy	1	\$1.12704	\$100.00	\$0.00	\$0.00	...	
08-17-2016	13:58:48	FX Account	EURUSDMICRO	Buy	1	\$1.12704		\$0.00	\$0.00	...	
08-17-2016	13:59:12	FX Account	EURUSDMICRO	Sell	1	\$1.12804	\$10.00	\$0.00	\$0.00	...	
08-17-2016	15:37:30	FX Account	AUDCAD	Buy	1	\$0.98253		\$0.00	\$0.00	...	
08-17-2016	16:03:58	FX Account	AUDCAD	Sell	1	\$0.98252	\$-10.00	\$0.00	\$0.00	...	
<b>Total</b>		<b>Best Trade</b>	<b>Worst trade</b>	<b>Fin Volume</b>	<b>Volume</b>	<b>Gross</b>	<b>Net</b>	<b>Commission</b>	<b>Fees</b>	<b>Wins</b>	<b>Losses</b>
8 trades		\$990.00	\$-10.00	\$6,767.20	8	\$1,090.00	\$1,090.00	\$0.00	\$0.00	3	1

As we have said before trading is a business, one that should be archived. A staggering 90% of traders will mistakenly fail to take the time to document their progress and most importantly work on the reasons as to why a particular trade has failed. If you aspire to become a successful trader you should begin your self-assessment from the moment you execute your first trade and continue this throughout your trading life.

## **Self-Control Assessment**

Self-control assessment is essential before making any analytical decision or executing a trade. Your success and sustainability in the market hinge on maintaining a focused and clear mind prior to trade execution.

Often, when traders make mistakes, they are aware of their errors and understand that the resulting difficulties were self-inflicted. Common mistakes include:

- Excessive trade volume
- Improper stop loss adjustments
- Entering too many trades simultaneously

You alone control your actions in the market. Along your trading journey, you'll encounter personal challenges, but it's also an opportunity for significant self-development and discipline.

The urge to trade just for the sake of being active in the market will always be there. From the moment you start your day, you'll feel compelled to find your next trade. Adapting from this mindset to one where "less is more" can be challenging but is ultimately rewarding for both your mental well-being and financial success.

Resisting the temptation to trade every potential setup requires discipline. In forex trading, only those who practice self-control will achieve consistent and positive results over time. It's crucial to recognize when it's appropriate to enter a trade and when it's better to wait.

In reality, the market may only offer a high-probability trade setup about 60% of the time. Professional mentoring, higher timeframe analysis, and trend trading are effective strategies for capitalizing on market momentum. As you become skilled in reading and analyzing price action, you'll learn to identify indecisive phases, which may last days, weeks, or even months, and understand when to step back and focus on other currency pairs.

## Phase 7 : Technical Charting Patterns

Many traders dream of conquering the market and being featured on the front cover of the Wall Street Journal, envisioning turning their initial \$5,000 into \$55,000,000. While having such lofty ambitions isn't inherently wrong, it's crucial to stay grounded.

Setting realistic goals is essential. This doesn't mean that becoming a millionaire is impossible, but it does mean understanding that mastering this skill takes time. Remember, Rome wasn't built in a day! Focus on setting monthly goals and maintaining an honest relationship with your trading journal from the start. Don't let losses discourage you; view them as opportunities for personal growth.

Instead of fixating on daily monetary targets or how much you want to grow your account, concentrate on achieving consistency. Strive for consistent analysis, drawdowns, pip counts, and a positive attitude.

“Money made by mistake is like a loan with a very high default rate.”

This means that high-risk trading, which promises massive returns, often leads to eventual losses. Your luck will eventually run out, and you may lose all the profits you've made. The most valuable lesson is time itself; there's a strong likelihood that money earned without proper knowledge and skill will be lost, along with your initial deposit. Trading is a skillful profession, not a gamble.

In conclusion, your trading plan should be as honest and organized as possible. Consider these additional questions for your plan:

- How many times a day will I check the market?
- Which currency pairs will I trade?
- How many trades will I hold at one time?
- What is my maximum risk tolerance for my account?
- What type of trader am I?
- What will be my trading style?

## **Trading is Not a Race. There is No Finish Line.**

Experiencing a winning streak for just 4 to 5 days can make a trader feel invincible, only to see their trading account quickly depleted. This often happens when traders chase big gains without laying the groundwork for a successful long-term trading career.

**Consistency:** Achieving success for a day or even a few weeks is not unusual in trading. The true test is whether you can maintain this performance week after week and month after month. You should only start trading with larger amounts of capital once you've built confidence through consistent results. Avoid the mistake of overtrading; instead, focus on making each week as profitable as the last.

**Experience:** Success in trading doesn't come quickly. It's a long-term endeavor that requires patience and understanding. Whether you achieve profitability next month or next year, reaching that point will significantly improve your life. Build a solid foundation so that as you gain strength and experience, your trading skills will solidify.

The market will teach you invaluable life lessons beyond what any educational system can offer. Through your trading experiences, you will become more resilient and adept at confronting your inner challenges. Mistakes and setbacks are crucial learning opportunities, serving as tests to see how you recover and grow.

**Trading vs. Bank Bonds/Interest:** Many people consider putting their money in a bank account or ISA a safe investment, typically earning around a 3% annual return. However, learning to potentially earn 3% or more per month can be a game changer. Suddenly, that small annual percentage seems less appealing compared to the monthly returns from trading.

**Trading vs. Property:** Investing in real estate and renting properties is another popular choice, often yielding about 7% annually depending on the property's location. Now, imagine achieving a 7% return per month instead of per year. While a 2-3% monthly return is more common, achieving 7% per month is possible if you discipline yourself to treat trading as a serious investment.