

Forex Advisor User Guide

Money Management

Managing and protecting your capital is the first step toward achieving consistent trading profits. Knowing and trading the right position size is key.

Positions: Unless stated otherwise, all trade recommendations assume you consistently take the same size position and that your position can be divided in half and closed out in two separate trades. Our track record is based upon being able to close a trade recommendation in two parts.

Managing position: Unless stated differently, the first half is closed out as soon as a profit of 20 points is achieved. The second half is held until a more significant profit has been achieved or market conditions change. Once the first half has been closed out at a 20 point profit, the stop loss on the second half is usually moved to breakeven. The more aggressive profit target on the second half will be stated and the stop loss limit on the second half will be communicated when it is raised from breakeven; the stop loss on the second half will never be adjusted to create a loss once it has been adjusted to breakeven.

The maximum stop loss set at the time a trade is entered cannot exceed 30 points; this is mandated by our daily trading stop loss limit of 30 points per lot with the total value of the stop loss never to exceed 1-2 percent of the account balance. Example: if 1 percent of the account equaled \$600 then the maximum trade would be two 100k lots (60 points = \$600 = two lots at 30 points each).

Less Than Full Positions: When only half the normal size position is recommended we use the term “light”. Our track record treats a light trade as one trade. “Light” trades are managed differently than regular trades.

Managing “light” position: The “light” trade is generally a position taken at a level where we are not expecting a quick “pop” that allows for a quick 20 point profit. It can also be a trade we like but don’t feel justifies maximum exposure. During the month of September our trade recommendations have been split about evenly between regular trades and light trades.

Unless stated otherwise, the stop loss on a light trade is initially 30 points; the stop loss will be adjusted (reducing the risk, never increasing it) as appropriate based upon price action. The profit target will initially always be 30 points unless stated otherwise; profit target will be adjusted as price action dictates.

Adding to light position: When a light trade is working (profitable), we may choose to add “light”, thereby making it a regular position. Stop losses and take profits will be clearly stated for both light positions. The maximum stop loss mandated by our daily stop loss limit of 60 points remains in effect.

Number of Positions: We focus on one currency, one trading position (either light or regular) at any one time. Our maximum daily stop loss limit of 30 points per lot and 1-2 % of account balance comes into play here; it limits the amount of exposure we can have at any one time. Under certain conditions, such as significant unrealized or realized profits on a given day, we reserve the right to take on additional positions or increase our existing position.

News Trades

Market reaction to scheduled monthly economic indicators is oftentimes much greater than what would appear justified, based upon the actual versus expected change in the indicator itself. There are two main reasons for this. Number one is technical support and resistance levels are oftentimes violated by the justified price change related to the news and stop loss orders are triggered, causing traders to chase the price to fill orders; oftentimes additional stop losses are triggered as a result, causing further unjustified price movement. It makes sense to “go with the flow” and get out when the motion stops. Fighting the move because it is “unjustified” does suit our game plan of limiting stop losses to 1-2 percent of account balance a day.

Position size: Normal size position unless declared a “light” trade. Most news trades are normal size positions.

Entry method: Unless instructed differently, place a stop loss entry 10 points above the current offer and 10 points below the current bid, 30 seconds prior to news release. Adjust your stop loss entry levels up until 10 seconds before release. We use the terminology straddle. For example, a trade recommendation related to a news trade would read “Straddle the EUR USD for the U.S. unemployment report at GMT 12:30.

Other entry methods: We sometimes feel that the technical market position is such that a surprise number will not create a move that justifies entering the market 10 points below or above current price. When we feel this way we will recommend just a stop loss entry buy or stop loss entry sell; we will state the stop loss in terms of number of points from entry. In no case will it be more than 30 points.

Profit Targets: As stated earlier, news related moves tend to extend way beyond what appears to be justified based upon the facts. Profit taking strategy is as follows unless stated differently in entry order or prior to news release; Carefully watch price action immediately after news release and take half profit the first time you see a price lower than the price immediately preceding it. For example, if you get stopped in at 1.1200 and the first price is 1.1230, if the next price is lower than 1.1230 sell half. If not wait and see if the third price is lower than the second price; if so sell half, if not wait. Continue this scrutiny until you have reduced your position by half and locked in profits.

Once a 20-point unrealized profit has been achieved the stop loss is always moved to breakeven to protect capital and not let a good profit turn into a loss. This rule applies to both halves of the trade.

The second half of your position is vitally important to achieving spectacular results and should be patiently maintained until there is a good reason to cut the position. Achieving a profit of 150 points from entry level is an extraordinary profits and a good reason to exit a trade. Break of trend line on 5-minute chart (in the opposite direction of your position) a good reason to exit your position. Negative news a good reason to exit position. Examples of bad reasons for exiting a position include: 1) It's not moving. 2) It feels uncomfortable not taking the profit. 3) The market is not doing what you want it to do. 4) Stocks or bonds indicate your position should begin to go against you. Bottom line: When you got it right let the price action tell you when to get out, until the unrealized profit is extraordinary.

Trading strategy defined: We are not concerned with being right or wrong. Our focus is on generating consistent trading profits without taking significant risk; hence our 1-2 percent daily stop loss limit.

The currency markets in the very short-term (hour to hour) are random and can easily be unduly influenced by hedge funds, financial institutions, option traders, Central banks, Bank traders, Institutional investors, large private investors, and a host of others, acting alone or in concert. Their actions can literally turn a bid market into a panic sell market and visa versa. There are no sure things in currency trading and the market can do the opposite of what the news and charts say for reasons beyond what we can readily determine. For this reason it is vitally important to strictly adhere to our daily stop loss limit of 60 points. We have done so everyday since inception and will continue to do so in the future; we regard this discipline as a cornerstone of our success.

Terminology

Buy at the market – buy at the best price currently available on your broker platform. For example, EURUSD is 1.1280-84; buy at 1.1284.

Sell at the market – sell at the best price currently available on your broker platform. For example, EURUSD is 1.1280-84; sell at 1.1280.

Stop loss – The price trigger for closing an existing position or initiating a new position. Be very careful with this. Read this carefully and fully understand it. It's very important. If your not sure ask as many questions as necessary until you're totally sure you understand it completely.

Stop loss on existing position – Example; you sell EURUSD at 1.1270; stop loss 1.1290. When the market reaches 1.1290-94 you buy at 1.1294 and square your position. The easiest way to do this is to put your stop loss buy at 1.1294 with your online broker. The problem with doing it this way is that your online brokers may quote the price of 1.1290-94 and stop you out, when other online brokers are still quoting 1.1288-92. If you have a stop loss in the broker (on their radar) it is likely this will happen.

There are two alternatives: 1) Put your stop at 1.1297; it is safe to say that your broker will most likely not quote the market 93-97 if it “really is” not at least 1.1290-94. 2) Put your stop at 1.1305 with your online broker as “insurance” against a fast moving market. You don’t intend to actually wait until 1.1305; you intend to watch your charting software and when it “prints” 1.1290 you intend to buy from your online broker at 1.1294 or 1.1295 (most charting software “prints” the bid price so when the charts print 1.1290, your broker is likely to be quoting 1.1290-94 or 1.1290-95 and you will buy at their market offer which should be 94 or 95). You then cancel your insurance stop at 1.1305. **WARNING: NEVER TRADE WITHOUT A STOP LOSS IN THE BROKERS. WE WILL NOT BE HELD RESPONSIBLE FOR LOSSES INCURRED BY CLIENTS DUE TO THEIR OWN NEGLIGENCE.**

How you choose to handle your stop losses is a matter of personal preference and experience. For new traders we suggest putting the stop in the brokers and give it an additional 3 points cushion to avoid being stopped prematurely. For mini-account users we suggest a 5-point cushion for the same reason.

We will report our results based on the actual levels we deal at to close the trade. We choose to put an insurance stop and base our stop triggers on netdania.com charts. When these charts are not working properly we put out stops in the brokers with a 3-point cushion and report the slippage in our exit price.

Stop loss to enter a position – exactly the same as for exiting a position.

Take profit (sell orders) – Once again our take profit levels are based upon “prints” on the netdania.com charts. Since netdania charts are the “bid prices”, **sell orders** should be filled pretty much at the levels netdania trades at. For example, when netdania “prints” 1.1290, you should be able to sell in your online broker at 1.1289 or 1.1290. Please don’t be penny wise and dollar foolish; if your broker platform gets within a point or two of your profit levels get it done, even if it means making a point or two less. For reporting purposes and closing my actual trades, once 1.1290 prints on netdania I exit the trade at the best available price in the online brokers and will report that price as my sell price.

For inexperienced traders I suggest entering your profit order in the brokers with 3 points “cushion”. Example, enter a 1.1290 sell at 1.1287. For mini accounts I would put 1.1285.

Take profit (buy orders) – The take profit buy orders are pre-adjusted to take the spread into account. For example, if I want to buy EURUSD at 1.1280, I will put the buy level at 1.1284 or 1.1285; knowing when 1.1280 prints on netdania I will be able to get in the trade at 1.1284 or 1.1285. For inexperienced traders and mini-accounts I suggest the “cushions” as described above.

Straddle News – enter two limit orders, 30 seconds before news release; one to buy 10 points above the current offer and one to sell 10 points below the current bid. If the current price moves after you entered your stops, adjust the stop entry levels so they remain 10 points either side of current price. Do this until there is 10 seconds left before news release. Example, EURUSD is 1.12 80-84 and there are 30 seconds to news release. Enter a stop loss sell at 1.1270 and stop loss buy at 1.1294. If EURUSD is 1.1275 –79 with 15 seconds to go move your sell stop to 65. If you have time move your buy stop to 89; if not risk the additional 5 points and leave your buy stop at 1.1294. Under no circumstances do you want to miss the trade or nor have a stop so don't cut it too close.

USD looks bid – Appears USD will trade higher because there appears to be buyers around.

USD looks offered – Appears USD will trade lower because there appears to be sellers around.

EURUSD looks bid – Referring specifically to the currency pair EURUSD.

EURO looks bid – Referring to the EURO against the USD, GBP, JPY, and AUD. Whenever a single currency is referred to (as opposed to a currency pair), the comment refers to that currency against all the other major currencies. It is a general comment and means on average. For example, the Euro may be higher against all currencies except CHF; you may still see the comment Euro bid.

Close or Close Trade – means buy back your short position at the market or sell out your long position at the market. No waiting. Eliminate your position and risk at the best available price. In a fast moving market don't wait; your first loss will be your least loss. Waiting for it to come back a few points is a terrible mistake. Don't do it.

ABBREVIATIONS:

Stop loss = sl

Take profit = tp

If done = id

Currency = ccy