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# Expert- Forex- Systems.com

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Profit From The Forex  
Market

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Andrew Fields

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[www.expert-forex-systems.com](http://www.expert-forex-systems.com)

This book has been written in order to provide Forex traders with two tried and tested trading strategies which work extremely well.

This is not a complicated book, but it is full of punch, and the systems you find in it are pure gold. I have purposely kept the book simple, straight-to-the-point and free of “padding” and information which you can find on other places on the net.

These are truly “expert systems” which have proven track records and have been used by top Forex traders and fund managers all over the world.

These two systems have been collected from the very best, through our close relationships with some of the expert traders in the Forex market. Many of the most brilliant traders work behind closed doors and are far from the limelight of Wall Street or London, and yet they achieve outstanding results – often far surpassing the performance of “The Street”. These are the real experts, and these are their systems!

You will find that these systems are surprisingly simple and easy to use. Simplicity is often the key to many successful ventures in life, and you will find that the same applies to trading.

Good luck with this outstanding material, and I sincerely hope that the notes in this E-book will help you to become successful and wealthy from trading the largest market in the world – the Foreign Exchange Market!

## Profits and drawdowns

Both of the expert methods aim for 300-400 pips per month, or more, with low risk and relatively low leverage. This enables you to enter the market with a higher degree of confidence and less risk of losing.

However, with all trading systems, there are periods of drawdowns. (Losses in the market) This cannot be avoided, and the best traders realise that drawdowns are part of the trading business and they must be accommodated.

Always allow for drawdowns equal to or slightly higher than the monthly profit average. If the system is gaining 400 pips per month on average, allow for periods when the drawdowns are up to 400 pips, or to be safe, 500 pips. A 500 pip drawdown at 1:1 leverage is equal to 5% of your account. Leverage is a double edged sword. Remember that a gain of 500 pips at 5:1 leverage is a 25% gain on your account. But conversely, a 500 pip drawdown is a loss of 25% of your account.

We recommend never using more than 5:1 leverage, or lower. This allows you to gain up to 25% per month on your account, without risking more than 25% during any particular drawdown period.

Read more about this in the chapter on money management below.

## Basics of trading

The purpose of this book is to present two excellent trading methods without filling the book with basic trading teaching. However, if you are a new or inexperienced trader, I have written another book for you on the basics of Forex trading, which you can get for yourself at a 50% discount at [www.forex-for-learners.com](http://www.forex-for-learners.com). This very comprehensive book will give you everything you need to learn the basics and to get trading yourself using the systems I teach here.

If you are new to trading, I also recommend using an unlimited period demo account. These are trading accounts which look and feel exactly like real money accounts, except that the money is not real. Using a demo account will allow you to get the feel for the trading platform, the feel for how the market moves and a feel for how the trade methods work in real time. I highly recommend trading on a demo account for at least 1 month, but probably even longer (3-6 months). Many traders who graduate to real money accounts too soon lose money. This is because the demands of real money trading are so much greater in terms of stress and emotions, and if you have not mastered demo trading before that, the combination of new experiences can be overwhelming.

You can visit [www.fxcm.com](http://www.fxcm.com) or [www.oanda.com](http://www.oanda.com) to get your own demo account free of charge.

Free charts which are entirely suited to trading the expert systems can be downloaded at [www.metatrader.com](http://www.metatrader.com)

## Essential reading material

There are several books which I feel are essential for your growth and learning as a Forex trader. I have listed 5 books in order of importance below. They can all be obtained from [www.amazon.com](http://www.amazon.com) and I would suggest reading one per month over the next 5 months. If you cannot afford to get all the books, start with the first two books and get the other ones when you can a little later on.

**Cornelius Luca: Trading in the Global Currency Markets**

**Steve Nison: Japanese Candlestick Charting Techniques**

**Marcel Link: High probability Trading**

**Regina Meani: Charting – An Australian Investor's Guide**

**John Bollinger – Bollinger on Bollinger Bands**

## Money management

### Money Management and leverage, stop losses and targets

This is one of the most important and most overlooked parts of trading. Many traders take huge risks with their capital in the hope that they will “get rich quickly” or recover previous losses with one good trade. I would like to suggest some simple guidelines for managing your trading account with the Expert Forex Systems, which will help you to reduce risk and maximize returns.

#### *1. Never leverage more than 5:1*

- This means that for every dollar in your account, you should not trade more than 5 dollars per trade positions. For example, if your account size is \$5000, you should trade no more than \$25000 per position. This is 2.5 mini lots (a mini lot is worth \$10,000) For example, with a standard account (\$100k lot size), you should have at least \$20k in your account to trade one standard lot of \$100k.
- I prefer to leverage even lower than 5:1 with 1:1 – 2:1 being optimal.

#### *2. Never risk more than 2% of your account on 1 trade.*

- This is easily calculated. If the trade you want to enter requires a 40 pip stop loss for example, the risk to your account if stopped out is 40 pips x leverage/100%. In this case, if your leverage is 5:1 then the risk would be  $40 \times 5 / 100 = 2\%$ . If the stop loss is higher, the leverage would have to be reduced.

#### *3. Always aim for a 2:1 reward/risk ratio in your trades.*

- If you are prepared to risk say 40 pips on a trade, ensure that the potential target for the trade is at least 80 pips. If you are prepared to risk 50 pips, make sure you have a possible target of 100 pips, and so on. Try to always aim for twice as much as you risk. The only exception to this rule is found in the Power Break™ method, and this will be clarified in that section.

If you stick to these simple rules, you should be able to weather the storms and have a long lasting and relatively stress free Forex career!

Good luck and enjoy!

Andrew

## Expert Trading method #1

### The Power Break™

Charts required:	15 minutes or 1 hour charts
Trading times:	06H00 – 08H00 London time
Currencies traded:	GBP/USD and EUR/JPY
Skill level required:	Low – intermediate
Comment:	<b>This is a simple, yet powerful method</b> which anyone can use to profit from the Forex market.
Leverage recommended:	Medium leverage maximum 5:1

## Trading Philosophy

This is an incredibly simple system which has exceptional results. The system is based on the principle that, although the Forex markets operate around the clock, 24 hours a day, there are certain phases on the market during the daily cycle. Because the World time zones begin in the East, the first large market to “open” is the Asian market, comprising mainly of China and Japan.

Although this is a large market, it is smaller than the markets of Europe, London and the United States, and therefore tends to have less volatility and more consolidation than the other market periods. Once the Asian market drifts towards closing, and the European markets start opening, there is often an increase in volatility and a strong move in one direction or the other.

The Power Break system aims to catch the increase in volatility and the break-out of the market, and to profit from the sizeable, quick moves which often (not always) take place.

Simply put, the system identifies the range established during the Asian market period and sets limits for entering the market based on the range. Profit targets and stops are based on statistical observations of normal distributions of the movements.

This system is simple to use, and takes less time to administer than other systems and will suit traders who cannot (or don't want to be) at the computer actively trading during the day.

## Currencies

The Power Break system is ideally suited for trading the GBP/USD (Pound/Dollar) and the EUR/JPY (Euro/Yen). This is for four reasons:

1. Both of these currency pairs tend to have higher volatility than the other major or minor pairs, and this is essential for the break-out system employed by the Power Break method. Once a currency starts to move through the entry zones, I want it to continue for at least a minimum distance so that a healthy profit can be taken.
2. Both currencies tend to present good opportunities at the end of the Asian session. The Pound because it is traded actively during the European session (which follows the Asian session) and the EUR/JPY because if it has a small range during Asian trading, it will often explode at the start of the European session. And that's exactly what I want!
3. Both currencies tend to offer lengthy trends once they start moving in a direction, and this enables us to capture a significant profit without enduring frequent retracements.
4. These two currency pairs are non-correlated. This means that I am not trading two currencies against the US Dollar. When currencies are correlated, they tend to move in similar patterns at the same time. In this case, the GBP/USD might be rising, whereas the EUR/JPY might be static or falling. This helps to



even out the trading performance and reduce risk – and that is extremely important. Risk is the big killer of trading accounts and careers.

## Chart setup

The chart setup is very simple. For each currency, I simply need the 1 hour or 15 minutes chart, with major support and resistance lines, Fibonacci lines and trend lines drawn in.

Note that inexperienced traders might not be efficient in drawing these Fibonacci, support/resistance and trend lines, and they are not essential. However, experienced traders may like to use them to “filter” the trades and improve the profitability of the system. More on that later! Candle charts or Bar charts may be used, depending on your preference:



Chart 1. EUR/JPY 60 minute bar chart



Chart 2. EUR/JPY 60 minute candle chart

## Trading methodology

### Entering the trade:

The trading entry method is very simple. I place two break-out orders outside of the Asian boundaries. There are two things that you need to note when using this strategy, first is the timing of trade and second is the value of the range.

## EUR/JPY

**Step 1** Firstly, I measure the **high and low** from **22:00 to 06:00 London time**. This is called the "power range"

**Step 2** I then place long and short orders 10 pips outside this range, which are automatically triggered by your trading platform if the price reaches those levels.

**Important:** *If the power range exceeds 80 pips, I do not place any order.*

**Step 3** I also set a stop loss of 40 pips and a profit target of 40 pips. If and when the price reaches the profit target or the stop loss, your trading platform should automatically trigger the trades for you.

**Step 4** Close the trade if neither of these is hit by 18:00 London time and repeat the process the next day.

## GBP/USD

**Step 1** GBPUSD: Firstly, I measure the **high and low** from **00:00 to 08:00 London time** (the power range).

This is called the “power range”

**Step 2** I then place long and short orders 10 pips outside this range, which are automatically triggered by your trading platform if the price reaches those levels.

**Important:** *If the power range exceeds 80 pips, I do not place any order.*

**Step 3** I also set a stop loss of 40 pips and a profit target of 40 pips. If and when the price reaches the profit target or the stop loss, your trading platform should automatically trigger the trades for you.

**Step 4** Close the trade if neither of these is hit by 18:00 London time and repeat the process the next day.

That really is the whole trading method. Incredibly simple, yet highly effective, relative safe and profitable and easy to administer!

**Let's have a look at a few examples:**

The simplest way to draw this on your charts is to create a box using vertical and horizontal lines like the chart below. This 15 minute chart for the EUR/JPY shows the power range (22:00 – 06:00 London time) on a particular day.

I have drawn two blue vertical lines on the chart to box the power range period between them, and then I have drawn two horizontal red lines on the chart to show the high and the low of the price action during that period.

In this case the power range was from 165.08 to 165.52 – a range of 44 pips. As this was less than 80 pips, I could set two breakout entries: One at 164.98 (to sell) with a stop loss at 165.38, and another at 165.62 (to buy), with a stop loss at 165.22. The targets in both cases are set at +40 pips.



Chart 3. EUR/JPY power range

Let's have a look at a GBP/USD example:

This 15 minute chart for the GBP/USD shows the power range (00:00 – 08:00 London time) on a particular day.

I have drawn two blue vertical lines on the chart to box the power range period between them, and then I have drawn two horizontal red lines on the chart to show the high and the low of the price action during that period.

In this case the power range was from 2.0477 to 2.0513 – a range of 39 pips. As this was less than 80 pips, I could set two breakout entries: One at 2.0467 (to sell) with a stop loss at 2.0507, and another at 2.0523 (to buy), with a stop loss at 2.0483.

The targets in both cases are set at +40 pips. In this example, it took the Pound another 8 hours to reach the 40 pip profit target, but eventually it did.



Chart 4. GBP/USD power range and breakout



Here's a great example of the EUR/JPY. Notice how the power range held for several days, and even after the orders were set (when the box closed) the power range was tested on both sides before the price finally broke out upwards. The target of +40 pips was very quickly reached before the price began to drift lower again.



Chart 5. EUR/JPY power range and breakout

Here's one more example of the EUR/JPY. In this example, the power range was between 168.62 and 168.95. That means I would place a buy entry at 169.05 and a sell entry at 168.52. Notice how I got an entry to sell very shortly after the power range ended, and the price held down near the entry for some time after that:

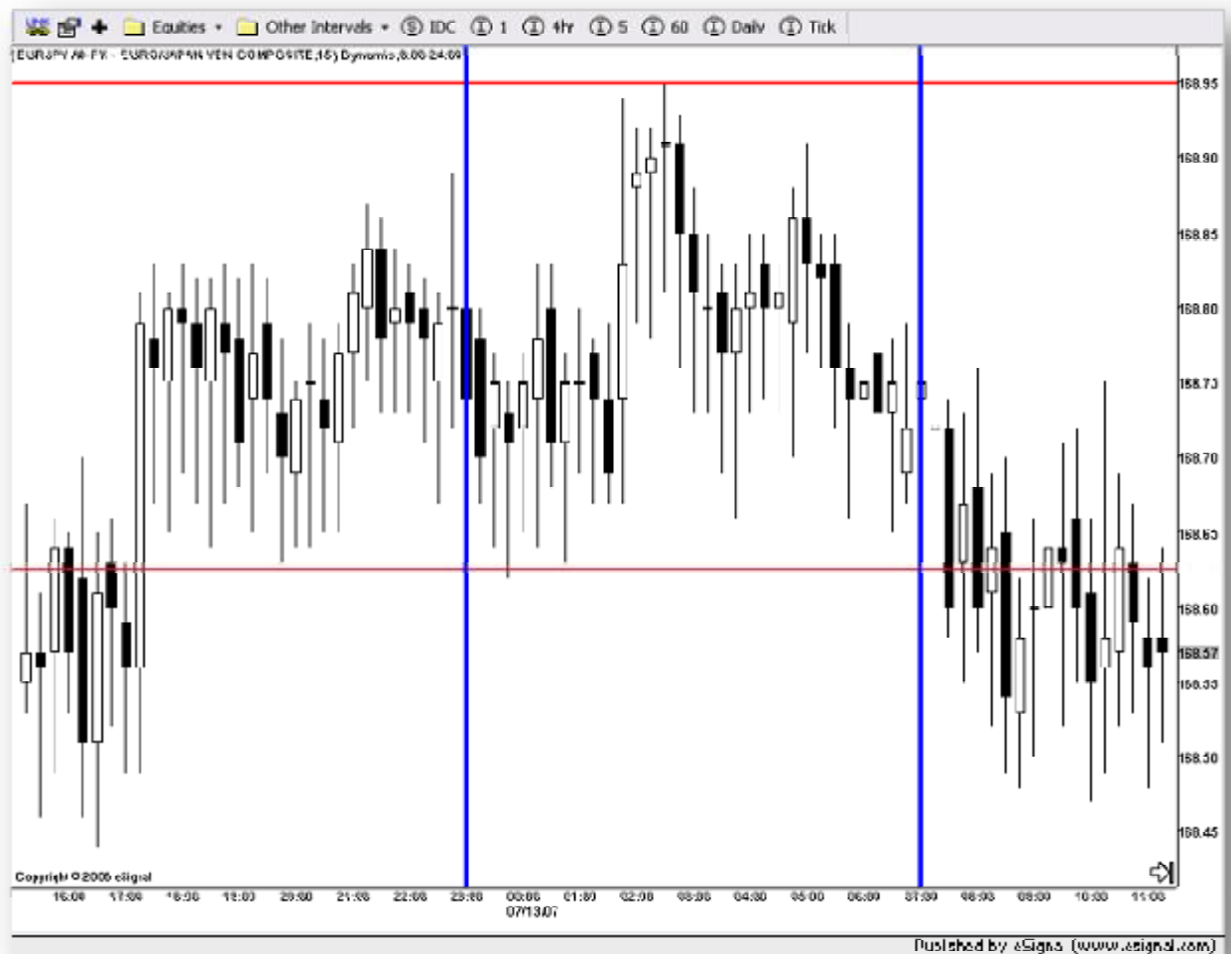


Chart 6. EUR/JPY power range and breakout

### Chart 7. EUR/JPY power range and profit target



Here's one more example on how to set up your charts for a Power Break™ Entry. The chart below shows the EUR/JPY power range. We study the chart at or just before 6AM London time, and draw in the power range box. We draw a red vertical line at 10PM London time the previous day and another red vertical line at 6AM London time today.

Then we draw in the horizontal blue lines at the high and low during the same period. This gives us the chart with the box below:

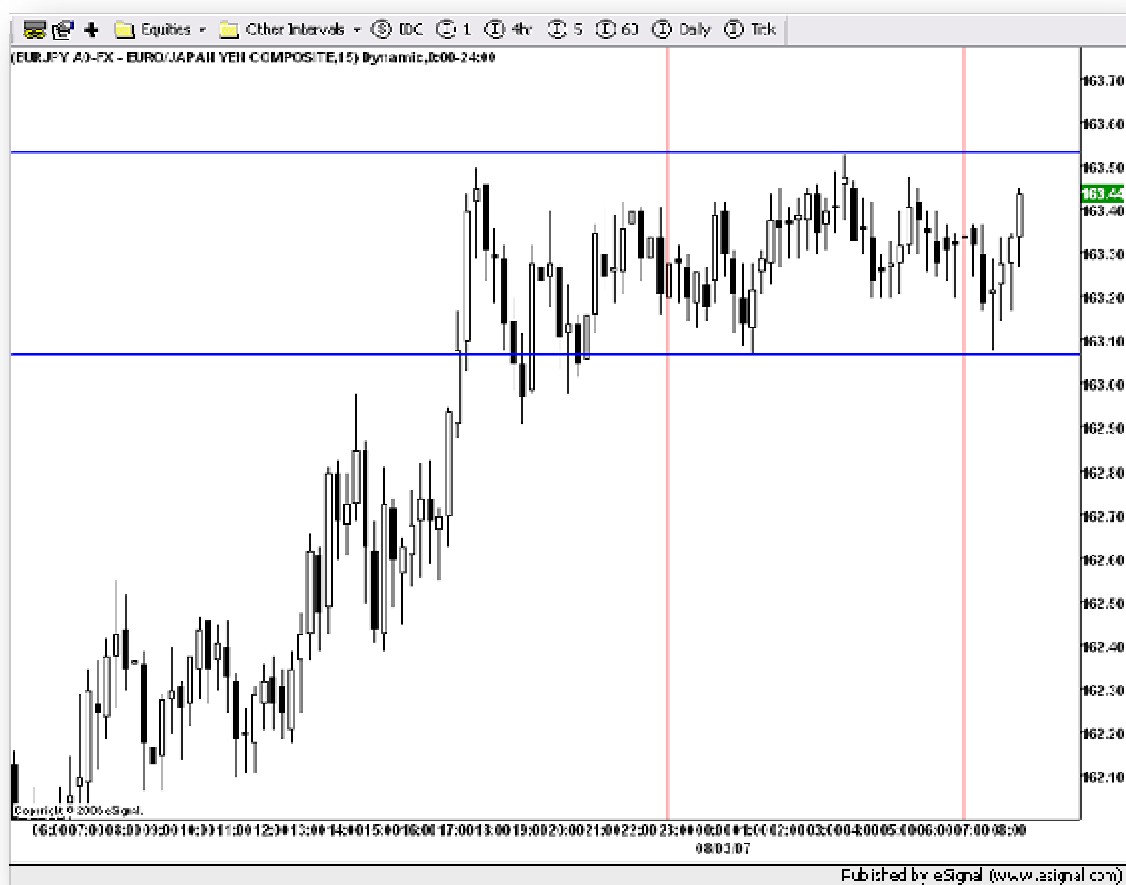


Chart 8. EUR/JPY power range

Notice the high is at 163.55 and the low is at 163.05. This is less than 80 pips and therefore we can enter our Power Break™ orders. Now we can set the entry, stop loss and exit parameters. The entry to buy on the power break is at 10 pips above the high (plus spread) which means we enter a long trade order at 163.65 plus the spread (let's say 5 pips) The buy entry is thus at 163.70. The stop loss and target should both be 40 pips, which gives us an order which looks like this:

**BUY 163.70, stop 163.30, target 164.10**

On the opposite side of the power range, we have a sell entry 10 pips below the low of the power range. As the low is 163.05, we place the sell order at 162.95, with a stop loss at 163.35, and a target of 162.55.

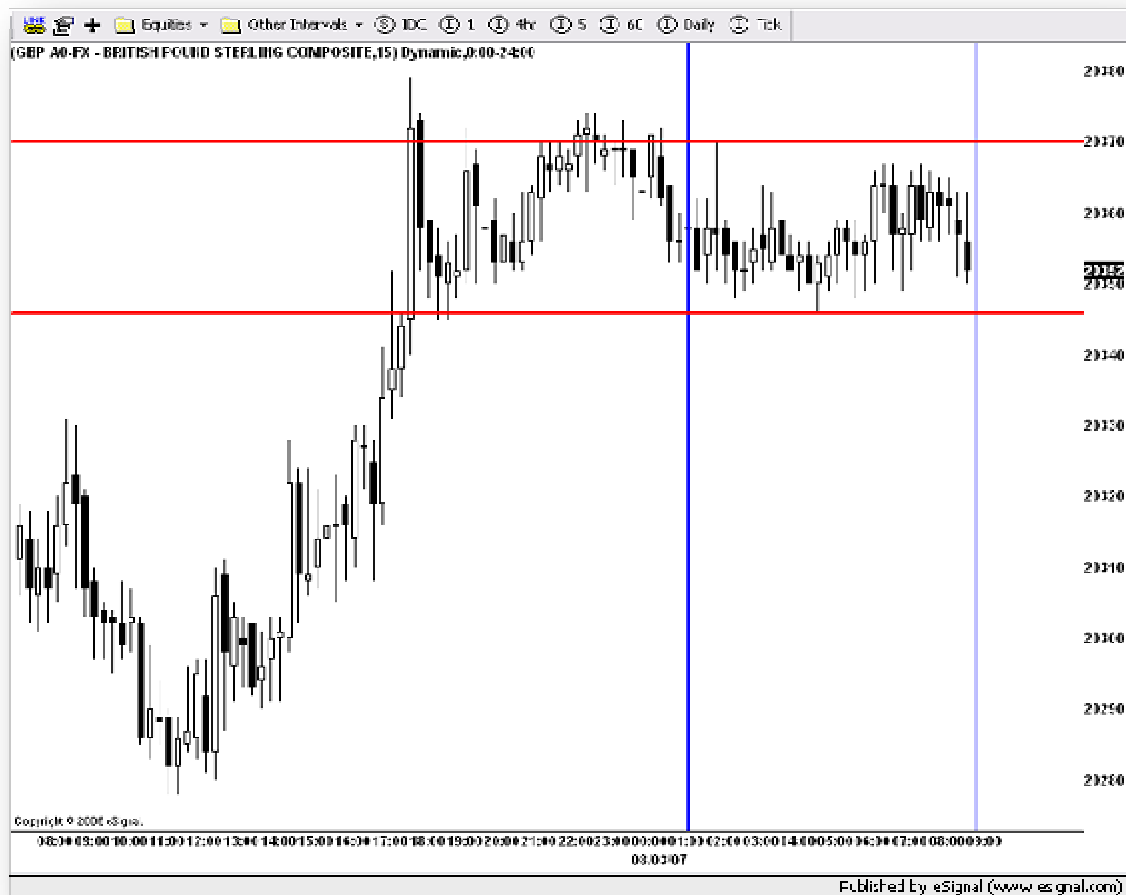
**SELL 162.95, stop 163.35, target 162.55**

Simple as that! Now we leave the orders in until 18H00 London time. At that time we either close the trades if they are still open, or we remove the orders if they have not been triggered. If the trades have already been triggered and reached either the stop loss or the target, there is nothing further to do.

The next day we repeat the process.

Here is one final example which is setting up as I write this book.

The chart below shows the GBP/USD just as the power range is closing, and as it is time to set up our entry orders. Also interesting is the fact that today is the first Friday of the month, which experienced traders will know is the day of the US jobs report (the NFP). This report often makes the market move 100 pips or more in a matter minutes – often in one direction without retracing. Ideal for a Power Break™ trade! We'll have a look at what happened to this trade a little later on, when the break occurs.



### Chart 9. GBP/JPY power range

Notice here that the power range is between 2.0370 and 2.0345 – a very narrow range, and much less than the maximum 80 pips. We can set up our orders as follows: (in fact I have just done so on my live trading account)

**BUY 2.0385 (10 pips plus 5 pip spread), stop 2.0345, target 2.0425**

And

**SELL 2.0335, stop 2.0375, target 2.0295.**

That's all there is to it. We remove any unopened order or close any open trades at 18:00 London time. Apart from that, the rest of the day

is ours! (We will look at the result a little later in the book – watch out for it)

Let's move on to some possibilities for experienced traders to optimize the system further and achieve greater profits through their additional skills.

## Tips for experienced traders

The Power Break system achieves good results if used exactly as it is written above. It has the benefits of being easy to use, less time consuming than other systems, the safety of non-correlated pairs and a very consistent equity curve.

However, if you have some experience in trading, and have the time and will to monitor your charts more carefully during the European and NY trading sessions, then there are several ways to maximize the monthly profits of this system.

1. Observe major support or resistance zones, major Fibonacci levels and the previous day's high or low. Skilled traders will be able to gauge the risk/reward factors and probabilities at such key levels and will be able to remain sidelined if they judge that these key levels make the trade too risky.
2. Let the trade run if there's a strong break-out or hold it for several days with trailing stop if you are trading in the direction of the trend and exit only on signs of reversal or exhaustion. This will help you to maximize profits on those few days a month when the price movement runs for 100-300 pips with little retracement. There are some notes on trailing stops lower down in the Extreme Swing™ Trading method, which apply equally well to the Power Break™ method.
3. The tighter the consolidation, the more powerful the break-out when it comes, so be prepared to let these run more readily.
4. Be careful not to trade on holidays or right before major news releases and remember to take profit quickly on Mondays and Fridays.

5. Note on money management: Generally, it is a good idea to employ the profit/stop loss ratio of 2:1 in most trading strategies, including the Extreme Swing method™. The only exception I have come across and traded myself is the Power Break™ method, where the stop and target are equal. The reason this can be done is due to three factors:
- a. We use two non-correlated currencies and losses on one tend to be cancelled out by gains on the other
  - b. The target is relatively small and the currencies used tend to respond to momentum breakouts, and therefore we can confidently go for the target whilst using a relatively large stop
  - c. The win rate is relatively high, and this allows profits to absorb losses quite comfortably.



## Summary

The Power Break™ method is extremely simple to use, and yet very effective. The technique is easy to master and there is little time required to manage the trades once the orders are placed.

The results will vary with market volatility, and has been shown to produce 200-400 pips per month with drawdowns of about the same magnitude.\*

This is a great system for experienced and novice traders alike and is a vital piece of every Forex trader's weaponry!

\*See disclaimer at the end of the book.

## Expert Trading method #2

### Extreme Swing™

Charts required:	Day charts with 50, 100 and 200 SMA and 100/200 Bollinger Band plus 14/7/3 Stochastic
Trading times:	Once per day at NY close
Currencies traded:	EUR/USD, GBP/USD, EUR/JPY, AUD/USD, USD/JPY, USD/CHF
Skill level required:	Intermediate to advanced
Comment:	This is an <b>extremely powerful trading method</b> which requires only 1-2 hours a day. It is well worth mastering!
Leverage:	Low leverage 2:1

## Trading philosophy

The Extreme Swing™ method is designed with several ideas in mind. Firstly, trading should be less time consuming than "office jobs" and therefore an "end-of-day" (EOD) system is ideal for people who want to enjoy a complete lifestyle. Trades are only entered once per 24 hours, at the end of the NY session, and then left to work themselves out for the following 24 hours.

Secondly, the idea is to enter trades less frequently – only on very high probability set-ups. This means the cost of trading (spreads and your time) is minimized and the winning percentage is maximized.

Thirdly, in this method, six currency pairs are traded, covering a variety of markets and crosses, thus minimizing the potential for

highly correlated pairs being traded together. Although six pairs are traded, usually the system will only place you into 1-3 pairs at the same time, as entries are highly selective.

In short, this is an ideal method for intermediate to experienced traders who value their lifestyles and are not concerned with being in the market all the time, or actively trading in front of the screen.

The idea behind the method is to pick entry zones of high probability and then to wait for clear entry signals through observing the daily chart price action at those zones. The trade is then entered in the opposite direction to the recent move – a swing trade. An understanding of candlestick charting or other methods of assessing price action is recommended.

## Currencies

As mentioned above, six pairs are traded; these being:

EUR/USD

GBP/USD

USD/CHF

USD/JPY

EUR/JPY

AUD/USD

These pairs are chosen for very specific reasons. The first three (Euro, Pound and Swissy) are European currencies and are thus highly correlated. Ideally, only one of these three pairs will have an active trade open at any one time, with a maximum of two. Often an entry setup will only occur on one of them, but sometimes a signal will occur on 2-3 simultaneously. In this case, the best signal only should be selected.

The next pair, the Dollar/Yen behaves differently to the European currencies, even though it is still a dollar-based cross. It reflects a different time zone (the Far East) and a different trading mentality. This pair often presents unique opportunities when the others might not be offering any entries.

The EUR/JPY (Euro/Yen) is not dollar based and therefore offers a non-correlated pair to trade. It also has different characteristics to the other pairs from a technical and psychology perspective.

The final pair, the Aussie Dollar, also offers a different market, driven by different fundamental and technical factors and adds a useful weapon to your trading armory.

## Chart Setup

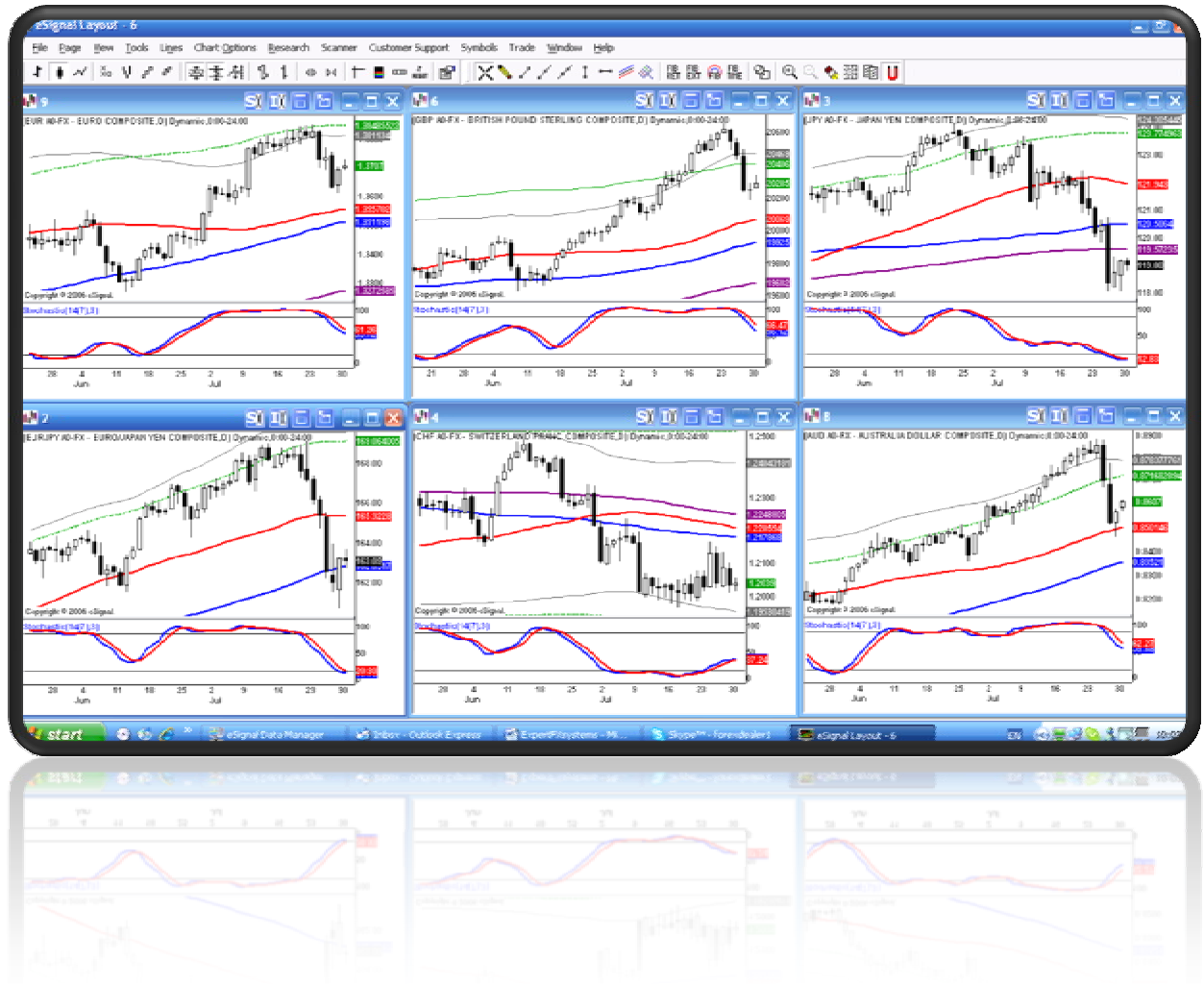
The chart setup for the Extreme Swing system is actually very simple. I use various well known moving averages to identify support and resistance zones, plus Bollinger Bands to identify high probability zones for trend reversal. Bollingers are based on statistical measures of probability, applied to many fields of science, and are excellent tools for trading Forex and other markets. I also use a Stochastic indicator to help with timing of the trade entries (and sometimes exits)

The chart setup is as follows:

I use day charts only, one for each of the six pairs traded, and arranged on your screen with three at the top and three at the bottom. Each chart has either candles (I prefer this) or bars to denote price action, plus the following statistical indicators:

1. A 200 period simple moving average (SMA) (Based on close)
2. A 100 period SMA (Based on close)
3. A 50 period SMA (Based on close)
4. A 100 period Bollinger Band (BB) (Based on close with 2 standard deviations)
5. A 200 period BB as above
6. A 14/7/3 stochastic.

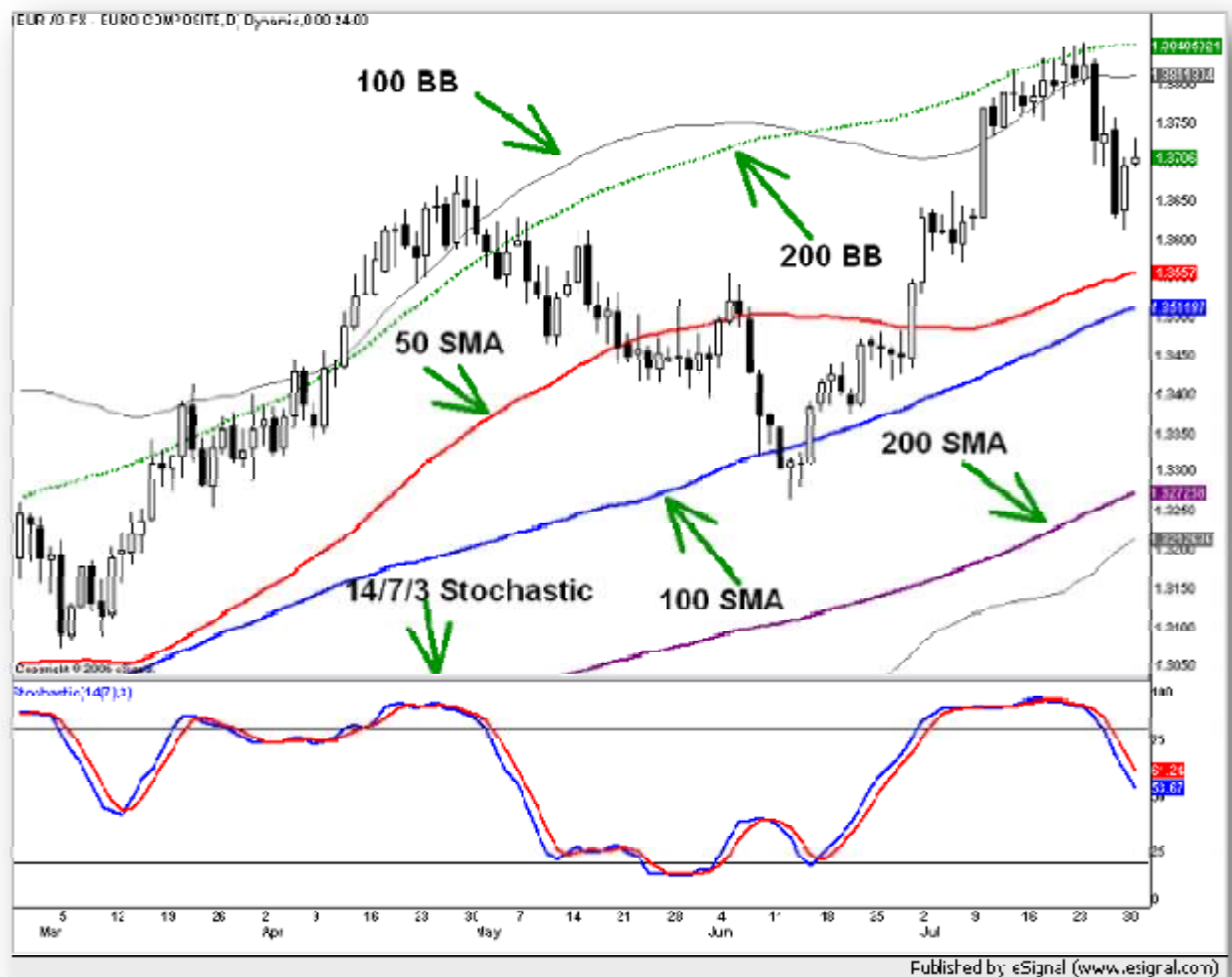
The picture below shows the 6 charts on the screen together:



### Chart 10. Extreme Swing™ set up.

This layout enables you to see all the currencies at a glance and it is easy to open any of the charts in its own window to fill the screen for a closer look.

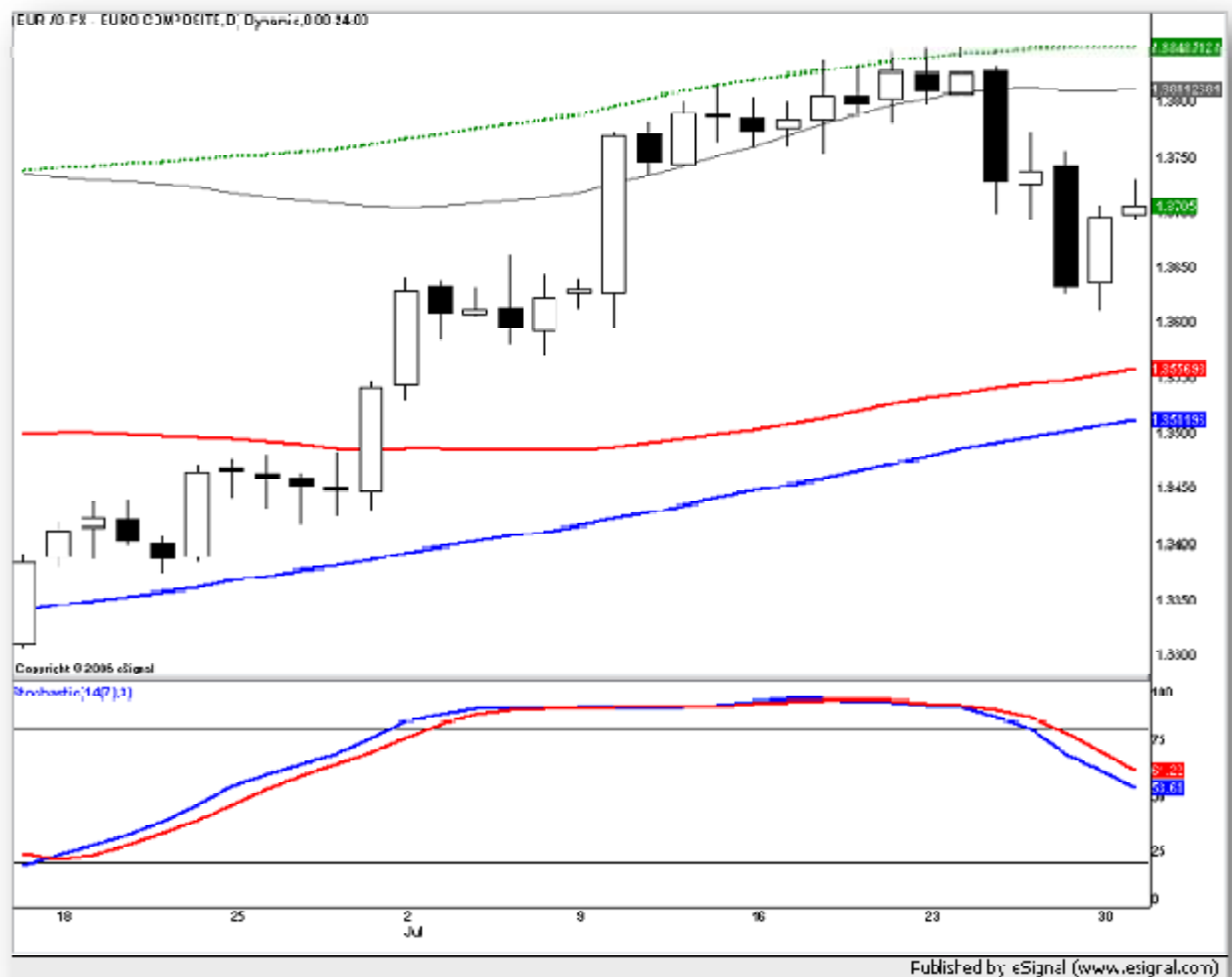
The individual charts look like this:



### Chart 11. Extreme Swing™ set up (2)

There are no other charts used in this method, and all trading is done by observing the chart for each pair at the end of the trading day, when NY closes around 5PM Eastern Time (US)

I prefer to use candle charts, and the following picture shows the same chart as above, zoomed in to show you how then candles are displayed:



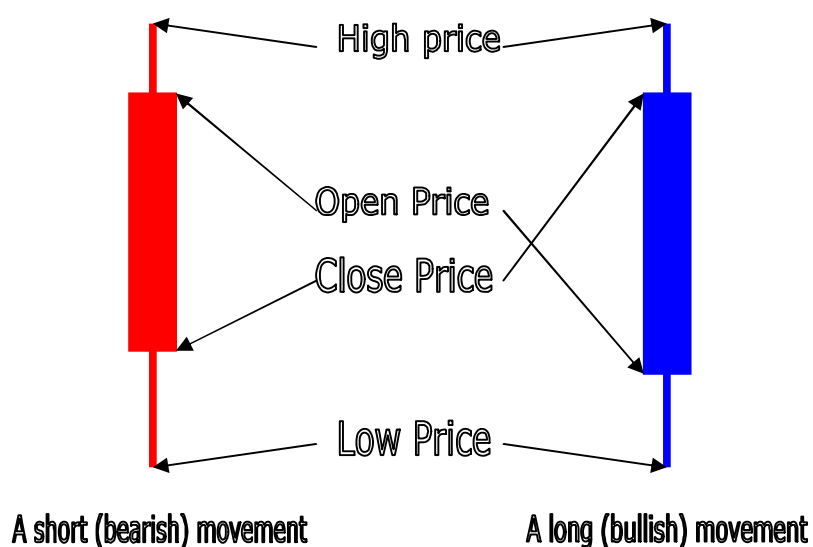
**Chart 12. Extreme Swing™ candle charts**

It is important for this method to have a good grasp of candlestick trading, and the table below gives some of the basic formations which I observe in this system. Further, I recommend that you purchase Steve Nison's excellent book on Candle trading (see book list on page 1)

## Candlestick charting

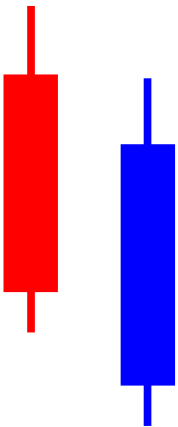

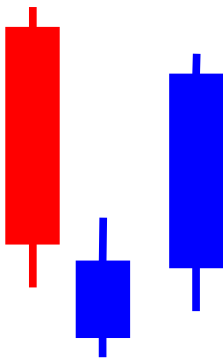
This section is a brief introduction to Japanese candlestick charting methods. If you are a new trader, please read through these carefully, and try to spot the patterns on your live Forex charts. If you are familiar with candlestick charting, skip this section and go straight to the rest of the system.

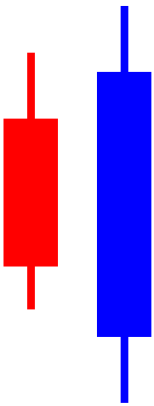
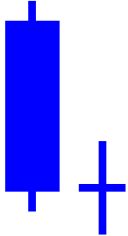
Interpretation of candlestick charts is based on patterns. Currency traders use primarily the relationship of the highs and lows of the candlesticks over a given time period. However, some patterns can be identified to anticipate price movements. There are two types of candles: the *bullish* pattern candle and the *bearish* pattern candle.




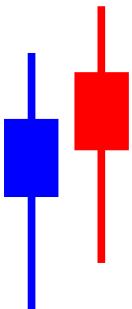
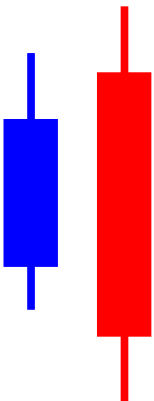
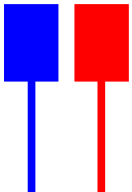
### Bullish Candlestick Formations

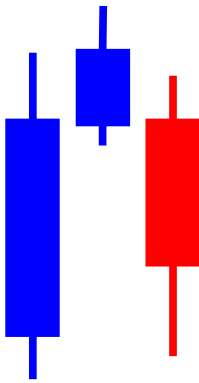
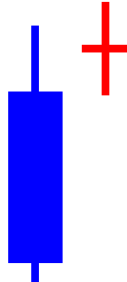
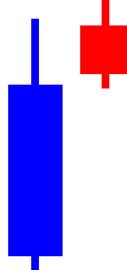


 The diagram shows two candlesticks. The first is a red bearish candle with a long upper wick. The second is a blue bullish candle that opens below the first candle's low and closes above its midpoint.	<p><u>Piercing Line</u> - This is a bullish pattern. The first candle is a long bear candle followed by a long bull candle. The bull candle opens lower than the bear's low but closes more than halfway above the middle of the bear candle's body.</p>
 The diagram shows a single blue candlestick with a small rectangular body and a long lower wick, representing a hammer pattern.	<p><u>Hammer</u> - The hammer is a bullish pattern if it occurs after a significant downtrend. If the line occurs after a significant uptrend, it is called a hanging man. A small body and a long wick identify a hammer. The body can be clear or filled in.</p>
 The diagram shows three candlesticks. The first is a red bearish candle. The second is a small blue candlestick (the star) that opens near the first candle's low and closes near its midpoint. The third is a blue bullish candle that opens above the star's high and closes above the first candle's high.	<p><u>Morning Star</u> - This is a bullish pattern signifying a potential bottom. The star indicates a possible reversal and the bullish (blue) candle confirms this. The star can be a bullish (blue) or a bearish (red) candle.</p>

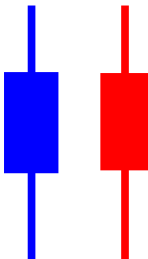

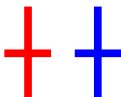
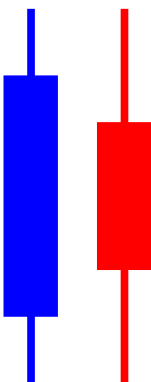
 The image shows a Bullish Engulfing pattern. It consists of two candlesticks. The first candlestick is red (bearish) with a small body and short wicks. The second candlestick is blue (bullish) with a larger body that completely engulfs the body of the first candlestick, and longer wicks extending both above and below.	<p><u><b>Bullish Engulfing Lines</b></u> - This pattern is strongly bullish if it occurs after a significant downtrend (it may serve as a reversal pattern). It occurs when a small bearish (red) candle is engulfed by a large bullish (blue) candle.</p>
 The image shows a Bullish Doji Star pattern. It consists of two candlesticks. The first candlestick is blue (bullish) with a body. The second candlestick is a doji, represented by a blue cross with a vertical line and a horizontal line, indicating indecision. The doji is positioned to the right of the blue candle.	<p><u><b>Bullish Doji Star</b></u> - This star indicates a reversal and a doji indicates indecision. Thus, this pattern usually indicates a reversal following an indecisive period. You should wait for a confirmation before trading a doji star.</p>

## Bearish Candlestick Formations




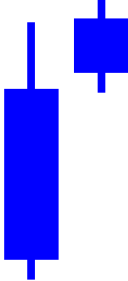
	<p><u>Long Bearish Candle</u> - A long bearish candle occurs when prices open near the high and close lower near the low.</p>
	<p><u>Dark Cloud Cover</u> - This is a bearish pattern. The pattern is more significant if the second candle's body is below the center of the previous candle's body.</p>
	<p><u>Bearish Engulfing Lines</u> - This pattern is strongly bearish if it occurs after a significant uptrend (it may serve as a reversal pattern). It occurs when a small bullish (blue) candle is engulfed by a large bearish (red) candle.</p>
	<p><u>Hanging Man</u> - This pattern is bearish if it occurs after a significant uptrend. If this pattern occurs after a significant downtrend, it is called a hammer. A hanging man is identified by small candle bodies and a long wick below the bodies (can be either blue or red).</p>

 The diagram shows three candlesticks. The first is a blue bullish candle with a long upper wick. The second is a blue candle with a small body and a long upper wick, representing the 'star'. The third is a red bearish candle with a long lower wick.	<p><u>Evening Star</u> - This is a bearish pattern signifying a potential top. The star indicates a possible reversal and the bearish (red) candle confirms this. The star can be a bullish (blue) candle or a bearish (red) candle.</p>
 The diagram shows a blue bullish candle followed by a red candle that is a doji, meaning it has a very small body and long wicks on both sides.	<p><u>Doji Star</u> - This star indicates a reversal and a doji indicates indecision. Thus, this pattern usually indicates a reversal following an indecisive period. One should wait for a confirmation (like an evening star) before trading a doji star.</p>
 The diagram shows a blue bullish candle followed by a red candle. The red candle has a very small body near its lower price and a long upper wick.	<p><u>Shooting Star</u> - This pattern suggests a minor reversal when it appears after a rally. The star's body must appear near the low price, and the candle should have a long upper wick.</p>

## Neutral Candlestick Formations

	<p><u>Spinning Tops</u> - This is a neutral pattern that occurs when the distance between the high and low, and the distance between the open and close, are relatively small.</p>
	<p><u>Doji</u> - This candle implies indecision. The open and close are the same.</p>
	<p><u>Double Doji</u> - This candle (two adjacent doji candles) implies that a forceful move will follow a breakout from the current indecision.</p>
	<p><u>Harami</u> - This pattern indicates a decrease in momentum. It occurs when a candle with a small body falls within the area of a larger body. This example a bullish (blue) candle with a large body is followed by a small bearish (red) candle. This implies a decrease in the bullish momentum.</p>

## Reversal Candlestick Formations

	<p><u>Long-legged Doji</u> - This candle often signifies a turning point. It occurs when the open and close are the same, and the range between the high and the low is relatively large.</p>
	<p><u>Dragonfly Doji</u> - This candle also signifies a turning point. It occurs when the open and close are the same, and the low is significantly lower than the open, high and closing prices.</p>
	<p><u>Gravestone Doji</u> - This candle also signifies a turning point. It occurs when the open, close and low prices are the same, and the high is significantly higher than the open, close and low prices.</p>
	<p><u>Stars</u> - Stars indicate reversals. A star is a candle with a small real body that occurs after a candle with a much larger real body, where the real bodies do not overlap (the wicks may overlap).</p>

## Trading methodology

Essentially, I am looking for a strong move in a particular direction, before trading in the *opposite direction* in order to catch the swing or reversal.

It is always easier to break any process down into a series of steps, and I have done that for you in this trading method. I will give you the rules of the method, and then put it all together for you at the end:

**Rule #1:** Only ever trade when the price is touching or has pierced or is very close (say within 20-30 pips) to a major indicator line on the chart. (50,100 or 200 SMA or 100,200 BB)

If the price is not at or near any of the indicator lines, no trade may be considered. In this rule, I am saying the price must be at or near either the 50 SMA, 100 SMA, 200 SMA, 100BB or 200BB. At any other place on the chart, trading is not allowed. These indicators act as zones/levels or probability and they mean that the chance of a reaction has increased considerably.

**Important:** in the case of the BB's only – the price can sometimes travel a fair distance through the BB. No matter how far through it has gone, a trade may still be considered.

The chart below gives examples of where trades might be considered in this example:

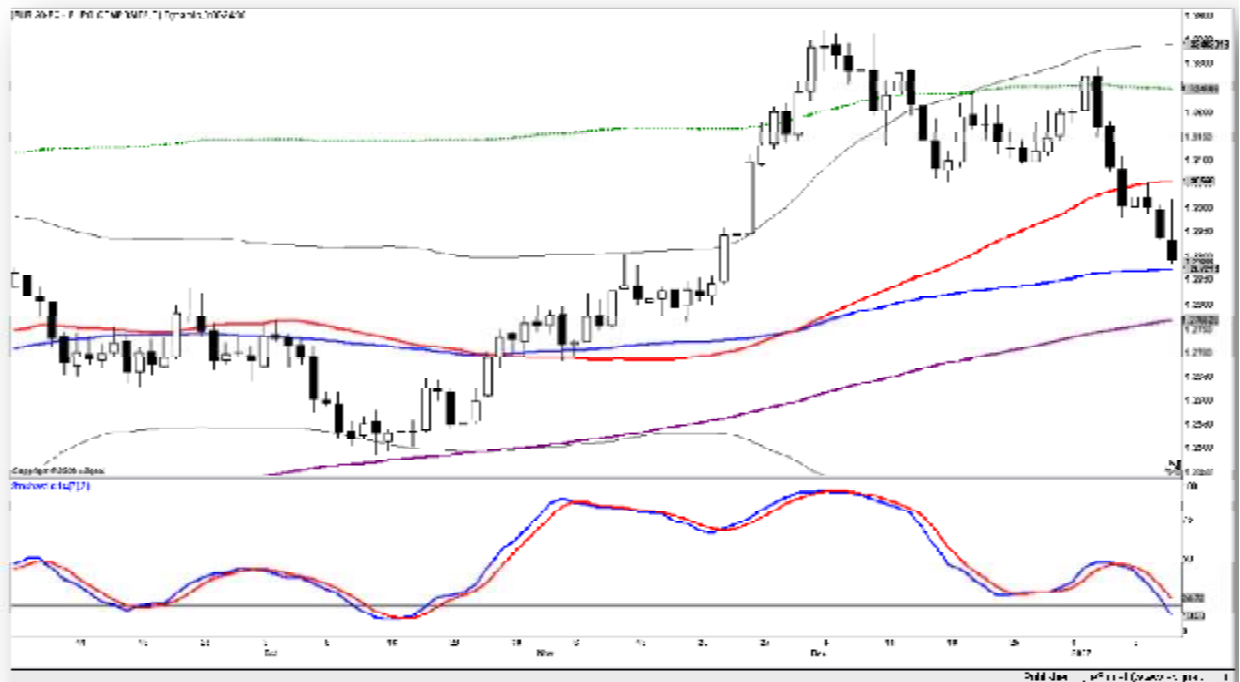


**Chart 13. Extreme Swing™ entry zones**

**Rule #2:** Trade entries may only be considered if/when the 14/7/3 stochastic is overbought (both lines above 80 on the stochastic chart) or oversold (both lines below 20 on the stochastic chart). Further, the stochastic lines must be “turning and touching” Let me explain this with the aid of the charts again:



The chart below shows the stochastic approaching the 20 level, but not yet oversold (see the right side of the chart. Note also that the candle is almost touching the 100 SMA, but no signs of reversal. More on that later – just a heads-up for you)



**Chart 14. Extreme Swing™ Stochastic almost oversold & Price near 100 SMA**

The next chart shows the same stochastic when it has become oversold, but not “turning and touching” (Notice the small bullish candle formed on the chart)



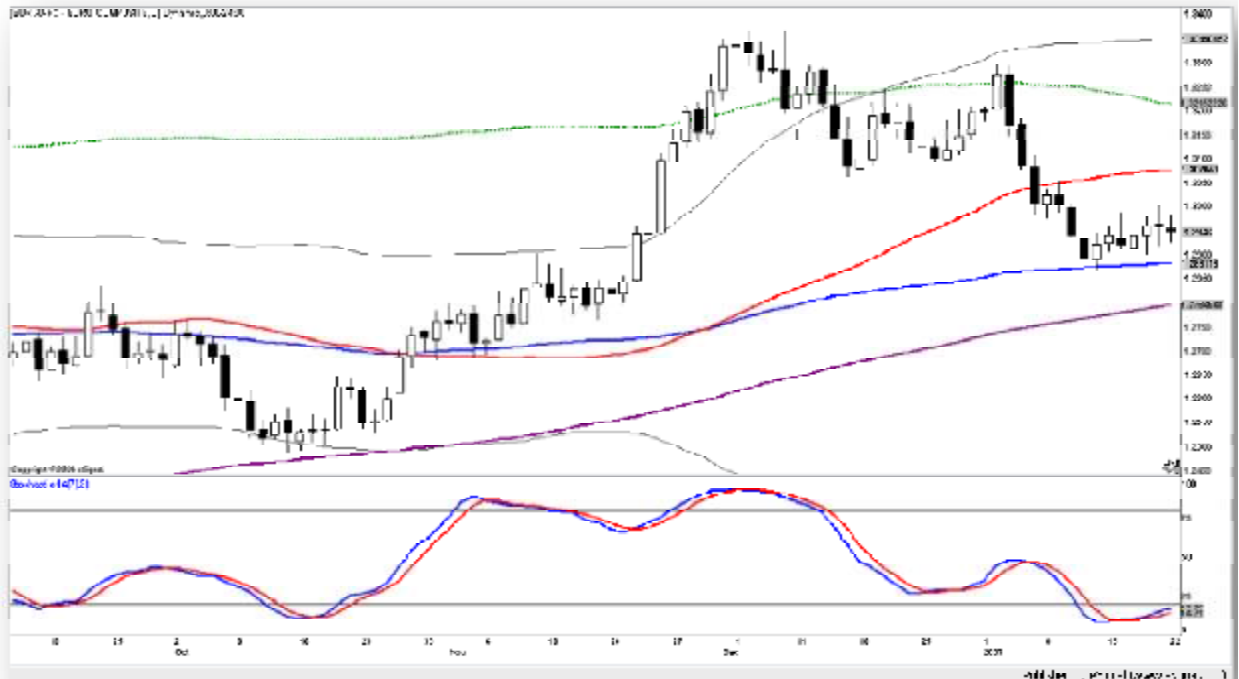
**Chart 15. Extreme Swing™ Stochastic now oversold & Price trying to reverse at 100 SMA**

The next chart shows the same stochastic when it has become oversold, and it is now "turning and touching" (Notice the series of small bullish candles formed on the chart)



**Chart 16. Extreme Swing™ Stochastic oversold & "touching and turning" and Price trying to reverse at 100 SMA**

The next chart shows the same stochastic when it has finished "touching and turning" and is now heading upwards. Note the reversal candles forming on the chart at the 100 SMA.



**Chart 17. Extreme Swing™ Stochastic oversold & turning and Price reversing at 100 SMA**

**Rule #4:** There must be a clear reversal candle (or bar) on the chart which occurs at one of the zones of probability and when the stochastic is "touching and turning" I have highlighted some of the common candle patterns in the pages above, and the most important patterns are "spikes" such as dojis, hammers and hanging man candles, engulfing candles, piercing patterns, dark cloud covers, full stops and morning/evening stars. I will discuss more on these later.

**Rule #5:** The trade risk/reward ratio must be favourable, and the stop loss must be between 50-150 pips and no more.

The best way to explain this system is through several examples, and a step by step trade entry process, so let's begin with that!

## Step #1: Get prepared

I firstly start up my charts near the end of the NY trading session around 5PM Eastern Time (US) Most traders tend to have their charts on all day, so if you have your charts ready, then switch to the Extreme Swing™ view. This is the 6 daily charts of the pairs I am trading.

Reminder: EUR/USD, GBP/USD, USD/JPY, USD/CHF, EUR/JPY and AUD/USD.

## Step #2: Oversold & Overbought

As I do not enter any currency unless the stochastic is overbought or oversold, it takes only a few seconds to scan the six charts and to find charts where this condition is met. In the screenshot below, you can quickly see that only the third pair along the top and the first pair along the bottom are worth considering (these are the USD/JPY and the EUR/JPY) For today, I can then ignore the other 4 currencies and focus on the two oversold pairs.



Chart 18. Scanning for O/Sold & O/Bought stochastic

### Step #3: Identify Extreme Swing™ Levels

Next I focus on the two charts I have picked out based on the stochastic. In this example, I only have two pairs to consider, and now I look for charts (from the two) where the price is touching or very close to the 50,100 or 200 SMA OR the 100 or 200 BB. Let's have a look at our examples:



### Chart 19. USD/JPY set up?

The first chart (USD/JPY) above shows the price is below all three SMA's and not yet near the lower 100 or 200 BB's. (the 100BB on the chart is visible at around 117.00) In this case there is no trade. If and when we drop lower towards the BB's, then I would move onto step 4, but in this case, there is no further action.

Notice, however, that the stochastic is "touching and turning" which means a bottom may be formed in the near future. See step 4!

Let's have a look at the second pair, the EUR/JPY...



### Chart 20. EUR/JPY set up?

Notice that in this pair, the price is below the 100 SMA (blue) but above the 200 SMA (purple). The stochastic is oversold, but not yet "touching and turning" (see step 4). The price is at about 160.70, and the 200 SMA is at 157.80, some 190 pips lower. In this case, I need to wait for the price to drop closer to the 200 SMA before considering a trade, and therefore there is no action to be taken.

Let's look at an example where we ARE at a key level and the stochastic is overbought....





### Chart 21. EUR/JPY set up? (2)

Here I see the EUR/JPY reaching up through the 200BB (green line) and the stochastic is overbought. This immediately means I can continue to consider a trade, and I move on to step 4. Remember that so far, the stochastic needs to be overbought or oversold, and the price needs to be touching or piercing, or very near one of the key levels. (SMA's or BB's) Now I can move onto the next step...

## Step #4: "Touching and Turning"

Now I look to see that the stochastic is "touching and turning" In the last chart example, this was not yet the case. However, at the very next candle (the next day), the stochastic did exactly that. See chart below:



Chart 22. EUR/JPY stochastic now "touching and turning"

As the price move lower, forming a “bearish engulfing candle” after the previous day’s “spike high” the stochastic did what I wanted – “touched” and “turned”! This is the signal I look for before moving to step 5.

**Note;** Step 4 and step 5 might be reversed in real time, or may occur at the same time. Don’t be too pedantic about the order of step 4 and 5. As long as they both occur within a day or two of each other, that is good enough. Sometimes the reversal candle happens before the touch and turn, sometimes on the same day, and sometimes afterwards. Be aware of that!

## Step #5: Reversal candles

The most important (and sometimes most difficult step of all) is to identify the reversal candle which triggers the reversal I want to trade.

There are many types of reversal patterns, some of which are identified in the section above on candle charting. I have found over the years that some patterns are more reliable and easier to spot than others and I will tell you all about them in the next paragraph.

There are two simple rules of thumb here:

- 1. If in doubt – stay out – don’t take the trade*
- 2. Wait for the most glaring, obvious reversals before trading*

**The most reliable candle patters are these, in order of importance:**

- Obvious spike high and spike low (including dojis and shooting stars)
- Piercing patterns and dark cloud covers
- 8-10 consecutive rising/falling days, followed by a reversal day
- Morning/evening stars
- Engulfing patterns

If all you know is these 5 patterns, you can do extremely well from this system. Get to learn them and know them intimately. You should be able to spot them in a few seconds on your charts.

*Again, read Steve Nison's book on candle charting. This will give you the best possible grounding in this powerful trading method.*

If and when you see a reversal candle/pattern, you then move onto the next step on planning the trade. First, let's have a look at some real examples of reversals which took place on our currency pairs:

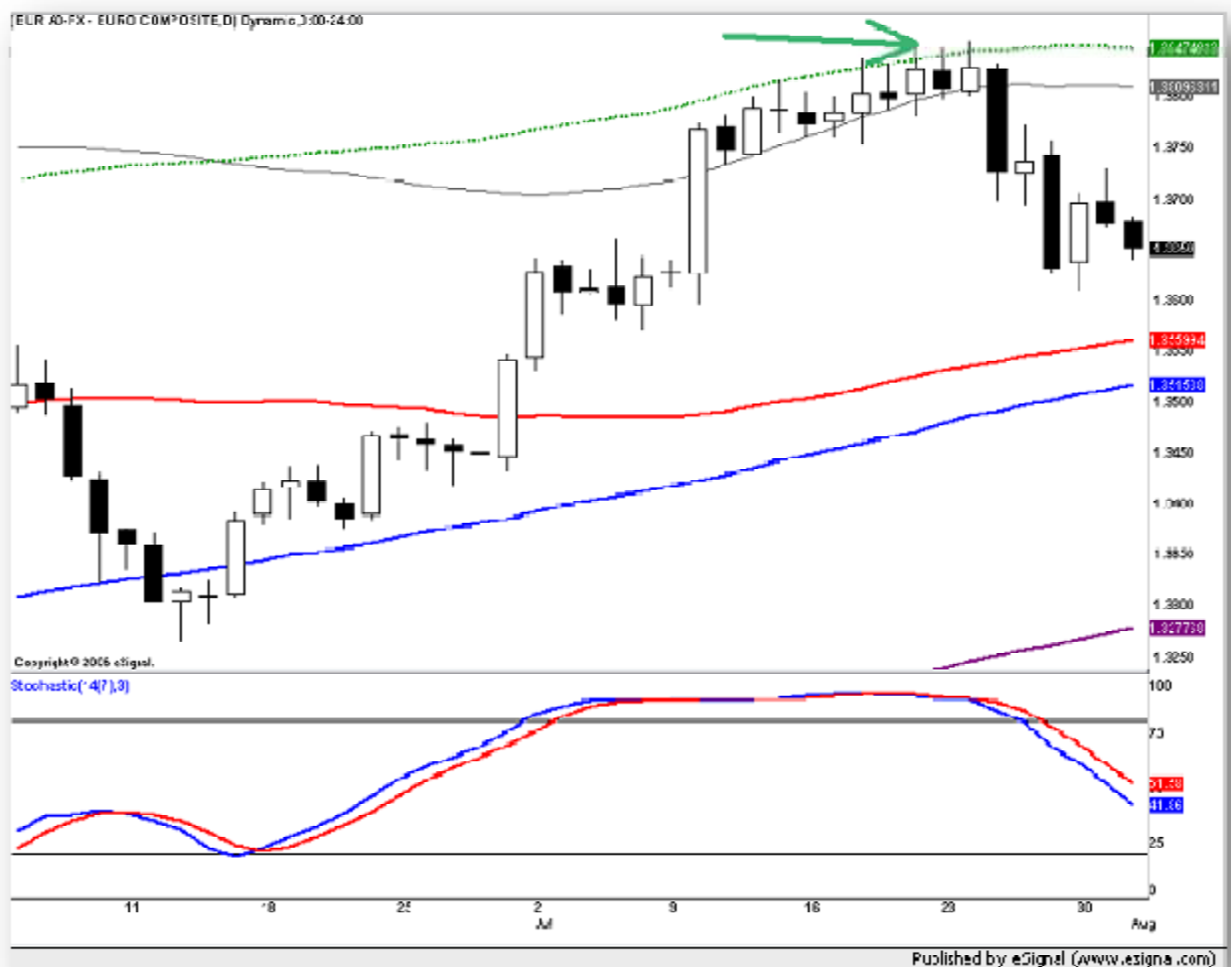


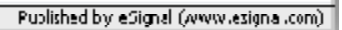
Chart 23 – Small doji candles at the 200 BB



Chart 24 – Piercing pattern and dojis at 100 SMA



Chart 25 – Spike low and doji's at the 200 SMA and 100BB



### Chart 26 – Spike low and bullish engulfing candle below the 100 BB



Chart 27 – Hammer and doji at the 100BB (grey) and below the 200BB (green)



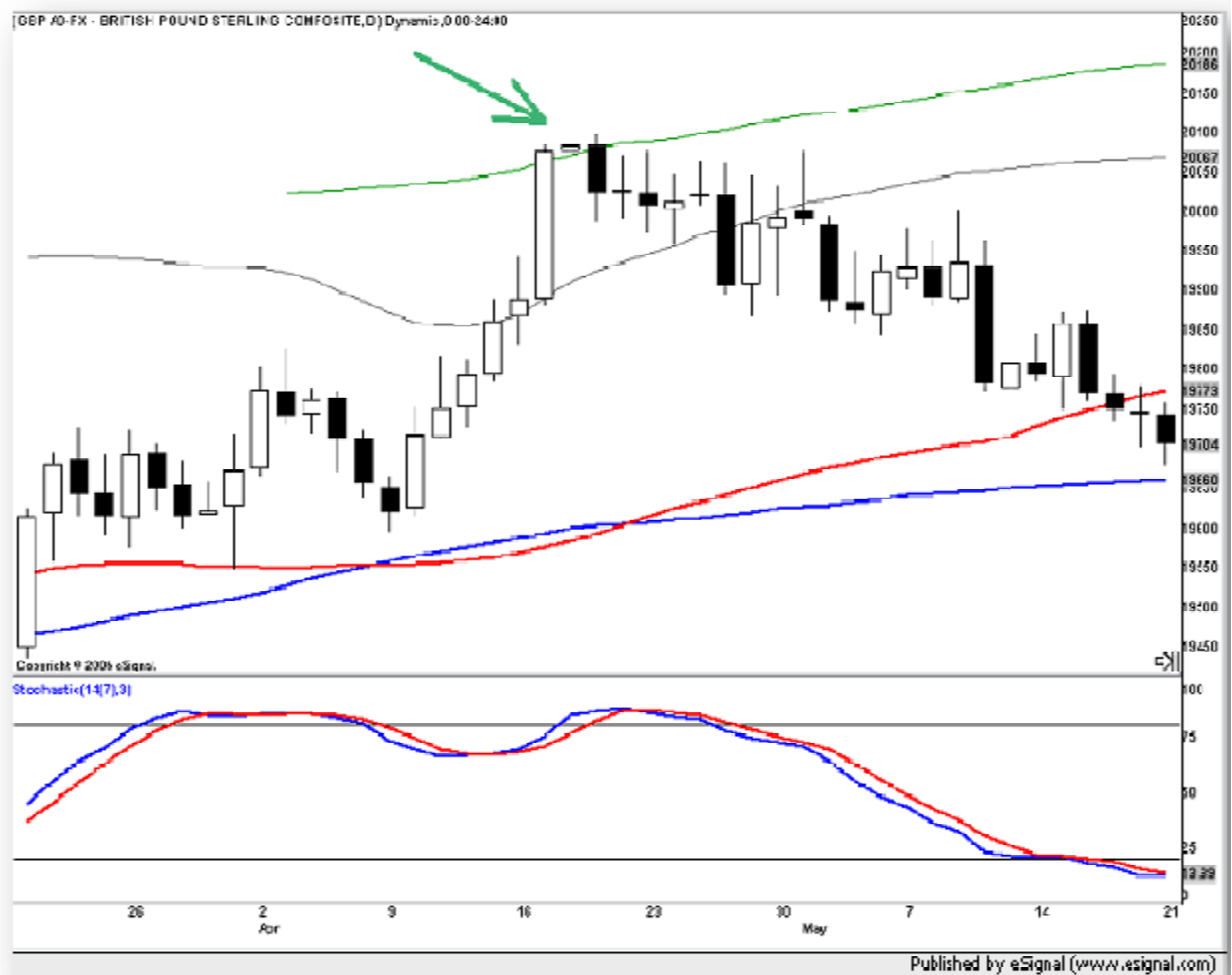


Chart 28 – Dragonfly doji at top 200 BB



Chart 29 – Doji through and above both BB's

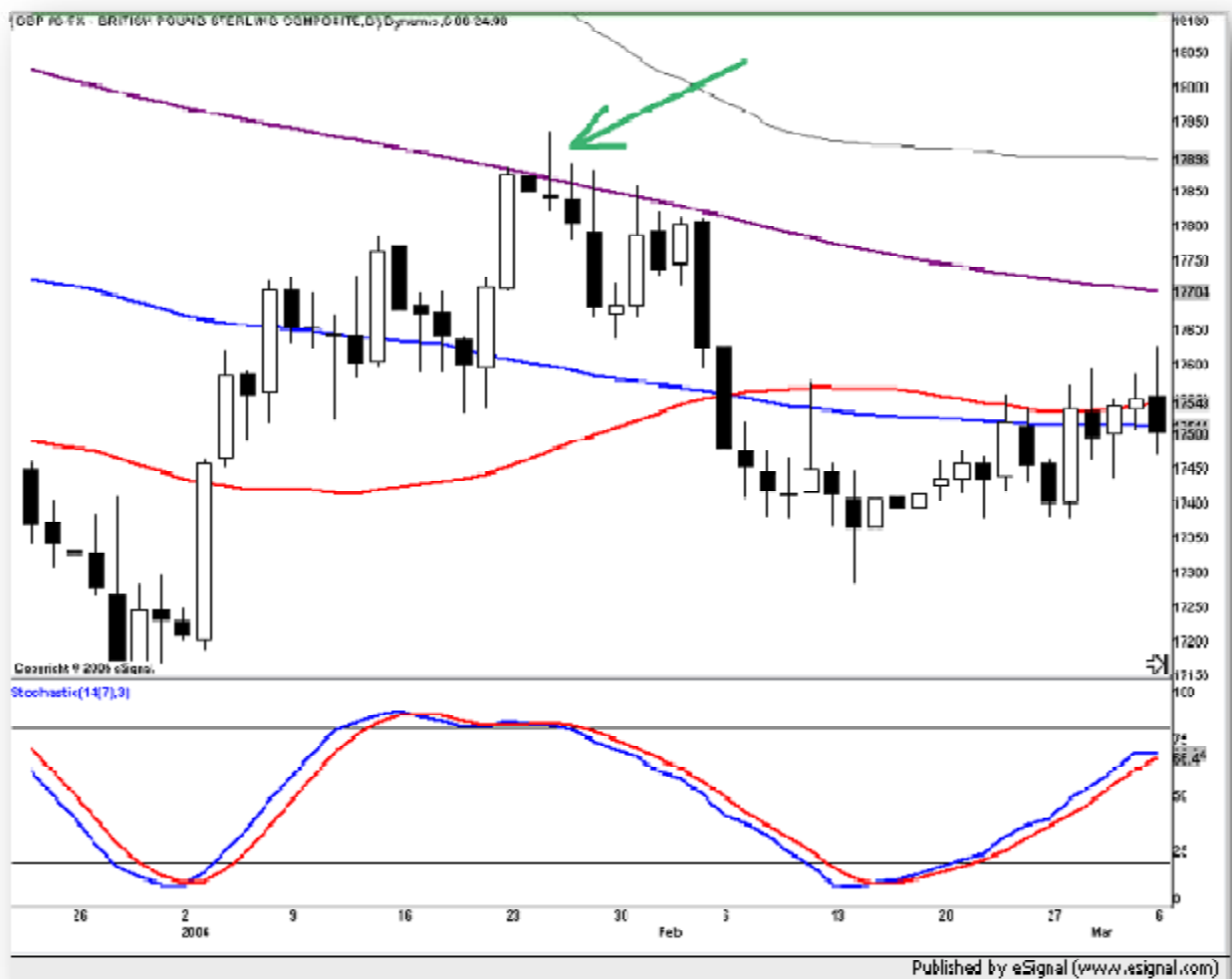


Chart 30 – Spike high at 200 SMA



**Chart 31 – Spike low and bullish engulfing candles at lower 100BB**



Chart 32 – Multiple reversal candles at lower 200BB and key support (see tips for experienced traders for notes on additional technical analysis.)

## Step #6: Entering the trade

Once I have the chart setup with the price at a key level, the stochastic oversold/overbought, the stochastic “touching and turning” and a reversal pattern on the daily candle, I then consider entering the market.

This is only possible either at the end of the trading day at 5PM EST or the next 1-2 days on a retracement. I will describe both of these....

### Entering at 5PM EST

The trade can be entered as soon as the NY trading day is finished, at the close of the daily candle. This is the simplest method to enter the trade. Remember, I am looking to enter the trade in the opposite direction of the most recent move. In the 10 examples above, you will see that the trade is in the opposite direction to the move that took place before it. For example, in chart 32, the price moved down to the 200BB, and the trade was then to BUY the pair. In this case, the USD/CHF had been moving lower for the past 10-12 days, and the trade was to BUY USD/CHF. In other words, I want to buy the US Dollar and sell the Swiss Franc.

**Reminder:** More information on the basics of trading can be found at my other book at [www.forex-for-learners.com](http://www.forex-for-learners.com) This is highly recommended if you are a new or learning trader and this special link will give you a 50% discount on the book.

Entering the trade has several considerations. First I must assess the size of the stop loss required, then the potential profit target and thirdly, the size of position I want to place on the trade.

General rule of thumb:

1. The stop loss must be above/below the daily candle which gave the reversal signal – about 10 pips further.
2. The stop loss must be no greater than 150 pips and no less than 50 pips. If this conflicts with rule #1, then either the position size must be reduced to accommodate the larger stop loss, or the trade must not be taken.
3. The profit target should be at least 150 pips and preferably 200 pips.

I will give you some good examples at the end, when I put it all together, so don't worry if you are finding this a little bit difficult right now!

## Entering on a retracement

This can take place if you feel the stop is too large, or if you think the price will retrace a little bit and you can get a better entry price by waiting for this to happen. For this entry, I need to switch to hourly charts to examine the price action a little more closely before the entry.

The best way to explain this is through an example:



**Chart 33 – Example of a GBP trade entry off the 200 SMA**

This chart example is taken from chart 30 in the section above. The trade entry signal was given where the green arrow points to the doji candle against the 200 SMA. This candle is a daily candle which closed at 5PM EST and then the next candle began to form. Let us say that the closing price of the doji candle was 1.7800, and the high of the doji candle was 1.7930. The rule of thumb above says that the stop loss should be above the high of the reversal candle. This means that the stop loss should be at 1.7945 (including the spread) this makes the total stop loss 145 pips – close to the 150 pip maximum I have determined.



I can either enter the trade with 145 pip stop loss (in that case I may want to reduce the position size I trade – see more on that lower down), or I can wait for a retracement.

Notice that the next day candle moves higher before moving lower. In fact, this candle went up to 1.7880 before moving down. This is called a retracement. The idea of this entry method is to determine an entry signal using the extreme swing method, and then to wait for the price to move higher the next day (a retracement in the opposite direction) before entering at a higher price. In this example I could have entered at say 1.7850, with a stop at 1.7945, giving us a 95 pip stop loss, instead of a 145 pip stop loss.

This is much more in our favor!

It reduces our risk of loss, and it reduces our risk/reward ratio (the ratio of amount risked vs. amount targeted for the trade) And this is exactly what I want!

The biggest danger of waiting for a retracement is that the market may not retrace at all, and I might miss the trade entry. This risk is sometimes hard to determine, unless you are a skilled trader.

As I mentioned before, the Extreme Swing™ Method is extremely rewarding, but can take some time to fully master. I encourage you to persevere because it is certainly worth it!

## Step #7: Stops and targets

I have already covered this in the previous step, but it's worth repeating again. Stops should be ideally no more than 150 pips, and always at least 10 pips above/below the reversal candle you chose to signal the trade. Don't set stops too close either. I suggest no less than 50 pips, as anything smaller than that places you in danger of losing a trade simple due to random market "noise" which happens every day in the region of 30-50 pips in amplitude.

The instinct is to try to make stops as small as possible, but we want to remain out of the noise of the market and also well above/below the reversal candle which we entered on.

Note that this system can produce very good profits, but stops are often larger than other systems. In this case the traded leverage should be no higher than 3:1, and ideally 2:1 (See section on money management near the start of the book)

With any trading system, the exit is always more difficult than the entry to the trade. Profit targets should be at least 100 pips, and ideally 200 pips or more – especially if the price has reached a major high or low and has already moved a 300-1000 pips in one direction.

There are two ways to set targets. Firstly, many traders will set the target at twice the size of the stop loss. For example, if the stop is 80 pips, the target becomes 160 pips. This is a good rule of thumb for the Extreme Swing™ method. More experienced traders can use technical targets and/or trailing stop losses, and I have covered this topic in brief in the section with the same heading below.

## Step #8: Money management

Yet another reminder: This is an essential topic which is almost always overlooked in trading books. If you do not manage your account properly, you will not succeed – that's a guarantee. I covered money management at the beginning of this book, and you should go back now to that section on page 3 and make sure that you understand and implement those three simple rules. Please do not ignore this!

## Trailing stops and technical targets

**Trailing stops** can best be explained like a ratchet. Let's say we are long on a pair such as the EUR/USD and the price has moved higher in our favour. Price action in the currency markets is usually like a wave pattern. The price will move higher for a while and then drop back

down to say 38% or 50% of the move higher it has just completed. (For more learning on Fibonacci retracements – visit

[www.forex-for-learners.com](http://www.forex-for-learners.com))

Once it has retraced it moves higher again and makes a new high. It carries on higher for a while, and then retraces again, and so on, in a ratchet type of movement.

The chart below gives an example of this wave or ratchet action of the EUR/USD during an uptrend:

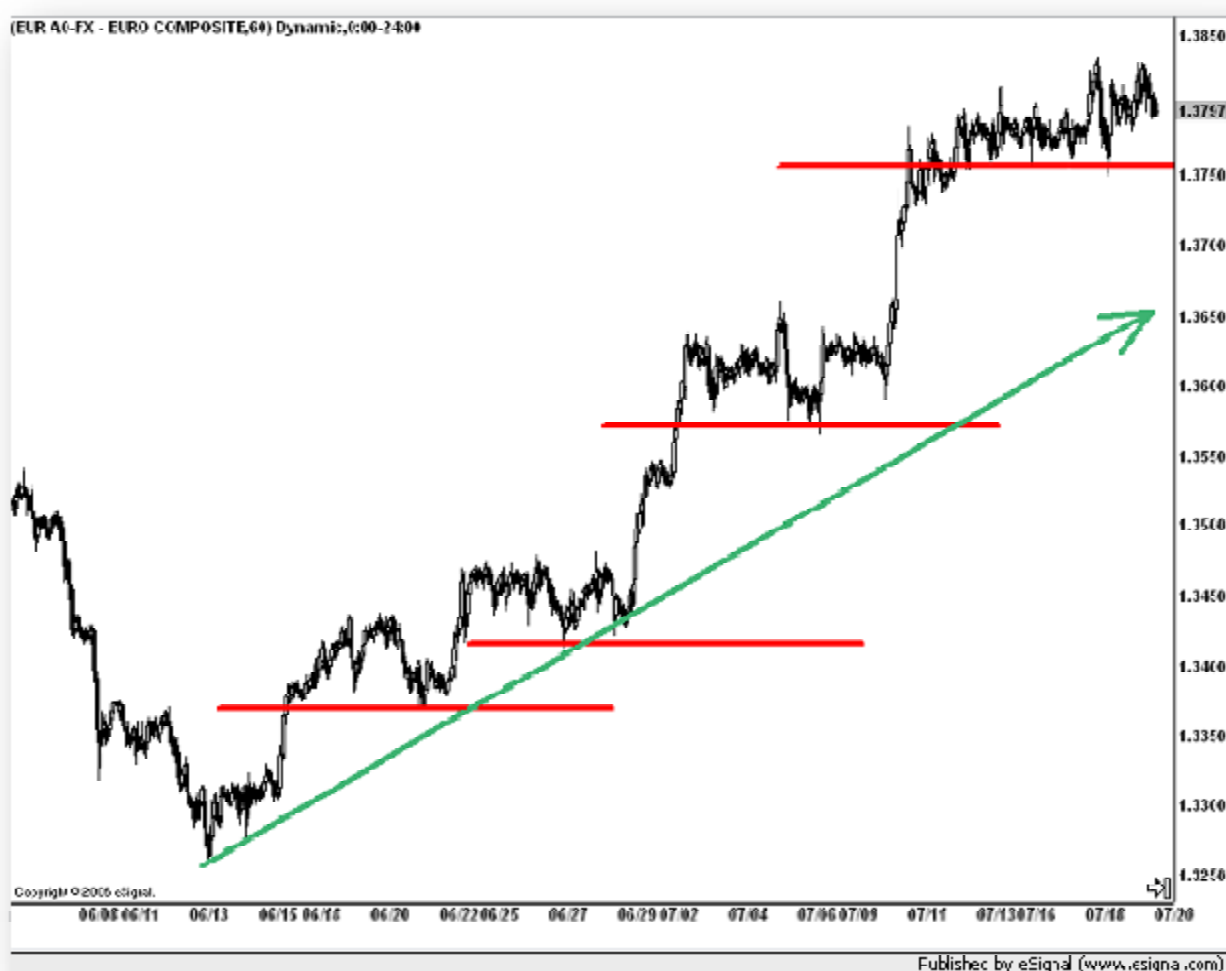


Chart 34 – Example of ratchet-like rally in EUR/USD

You can see in this example on an hourly chart, that, although the price was generally moving higher, there were frequent periods of correction (retracement) where the price fell back a little before moving higher again.

The idea of using a trailing stop is to wait for the corrections/retracements and then to move the stop loss up underneath them once the price has moved higher. In this example there were 4 occasions where this could have been done. The next chart shows that eventually the price broke below the 4<sup>th</sup> trailing stop level and stopped the trade out for a handsome profit. This method is very powerful when used with the Extreme Swing™ method, when the market is in a strong trend, and this trade would have gained over 450 pips!

Using trailing stops is not as easy as it looks here and, once again, perseverance is required to master this technique. Again, it is well worth doing so!



**Chart 35 – Example of ratchet-like rally and eventual profit taking by trailing stop in EUR/USD**

Below is the same trade on the daily chart, showing the entry and the trailing stop levels:



**Chart 36 – Example of ratchet-like rally and eventual profit taking by trailing stop in EUR/USD (day chart view)**

Technical targets, on the other hand, are pre-chosen targets which the trade can decide upon using other forms of technical analysis. Once again, this comes with knowledge of basic technical analysis, with the key ingredients being Fibonacci retracements, Support and resistance lines and Trend lines. These are basic tools which every trader should master and are not part of this book.

However, please visit [www.forex-for-learners.com](http://www.forex-for-learners.com) to get the very best training available on this subject.

### **Tips for experienced traders with a good knowledge of technical analysis**

When watching for entry signals and timing the trade entries, pay special attention to where the Extreme Swing™ entries coincide with the following:

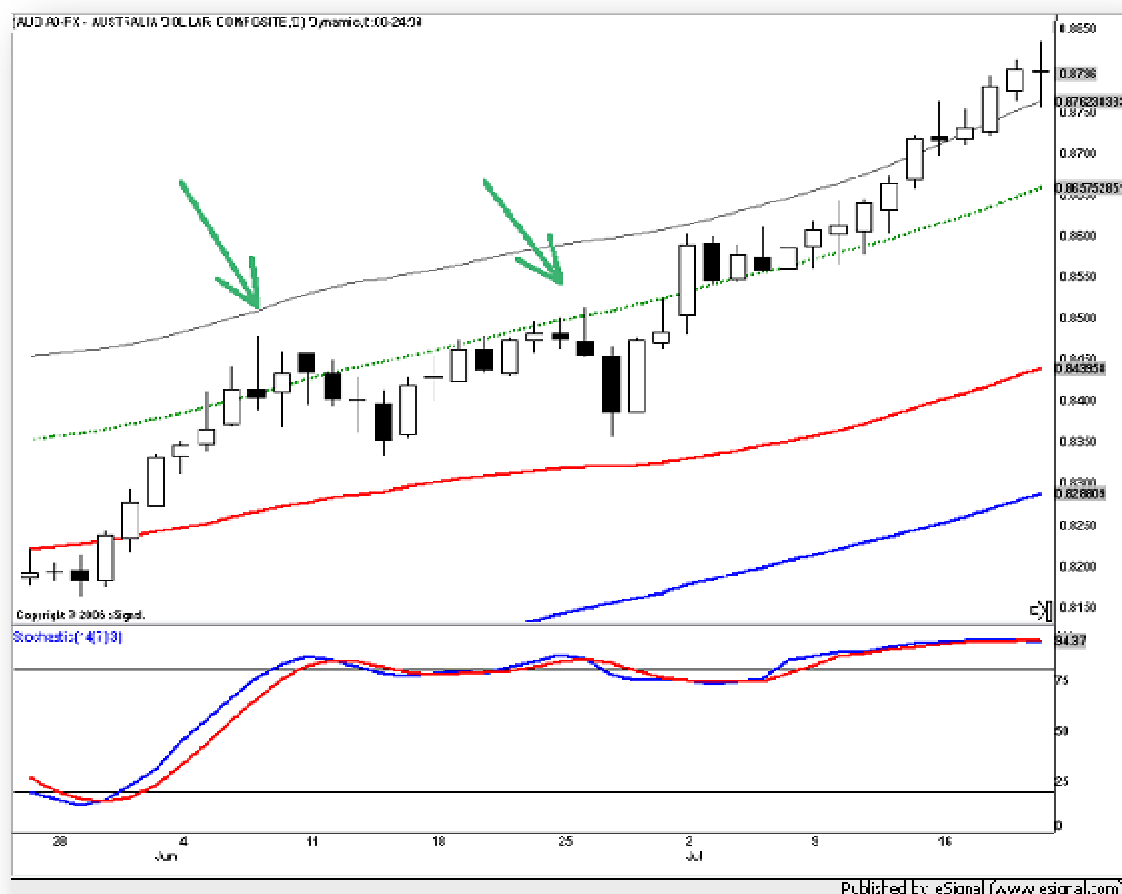
- Fibonacci retracement levels(including 0.786)
- Horizontal lines of major support and resistance
- Major trend lines

When an entry signal is seen using the Extreme Swing™ method, and the entry level/timing coincides with any of the above technical levels, a very powerful entry signal is generated. The probability of winning becomes much higher than normal and these are the entries which should be particularly important in your trading month.

The best way to illustrate the Extreme Swing™ Method is through real trading examples, and I have included three in the section below:

## Extreme Swing™ Example 1 Short AUD/USD outside top 200 BB

In this example, the AUD/USD was outside the top 200BB and gave a perfect entry signal for a sell. If you look back to a few weeks earlier, the chart shows two previous opportunities to sell, which were profitable, but with smaller profits (see chart below with green arrows). These were sell signals off the 200 BB, but only the second green arrow had a "touching and turning" signal from the stochastic.

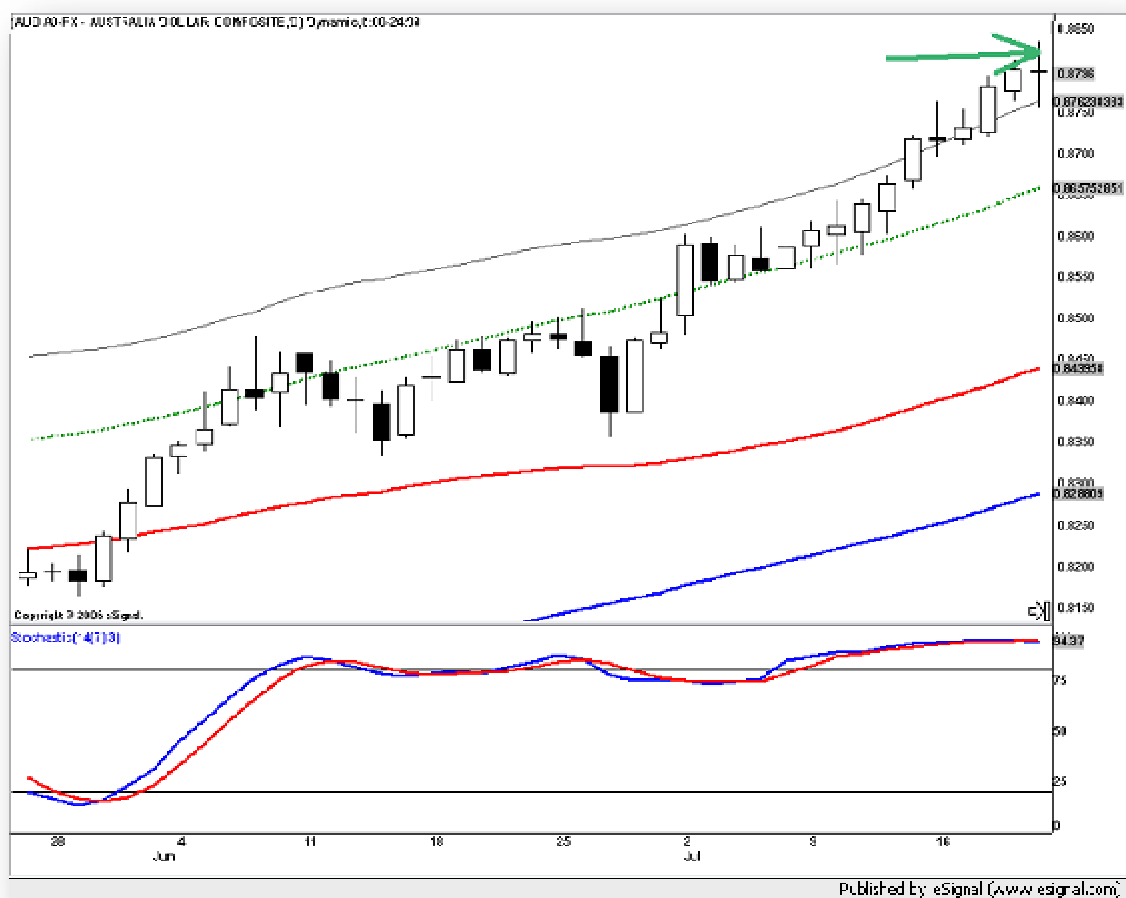


**Chart 37 – 2 "False swings" in AUD/USD, followed by another entry Doji on the far left**



Then the price move higher and we got another reversal candle at the top 100 BB with a perfect doji candle. Note the overbought stochastic which is now "touching and turning" again...

The price at the close of the day was 0.8796, and the high of the candle was 0.8834 – a 38 pip gap.



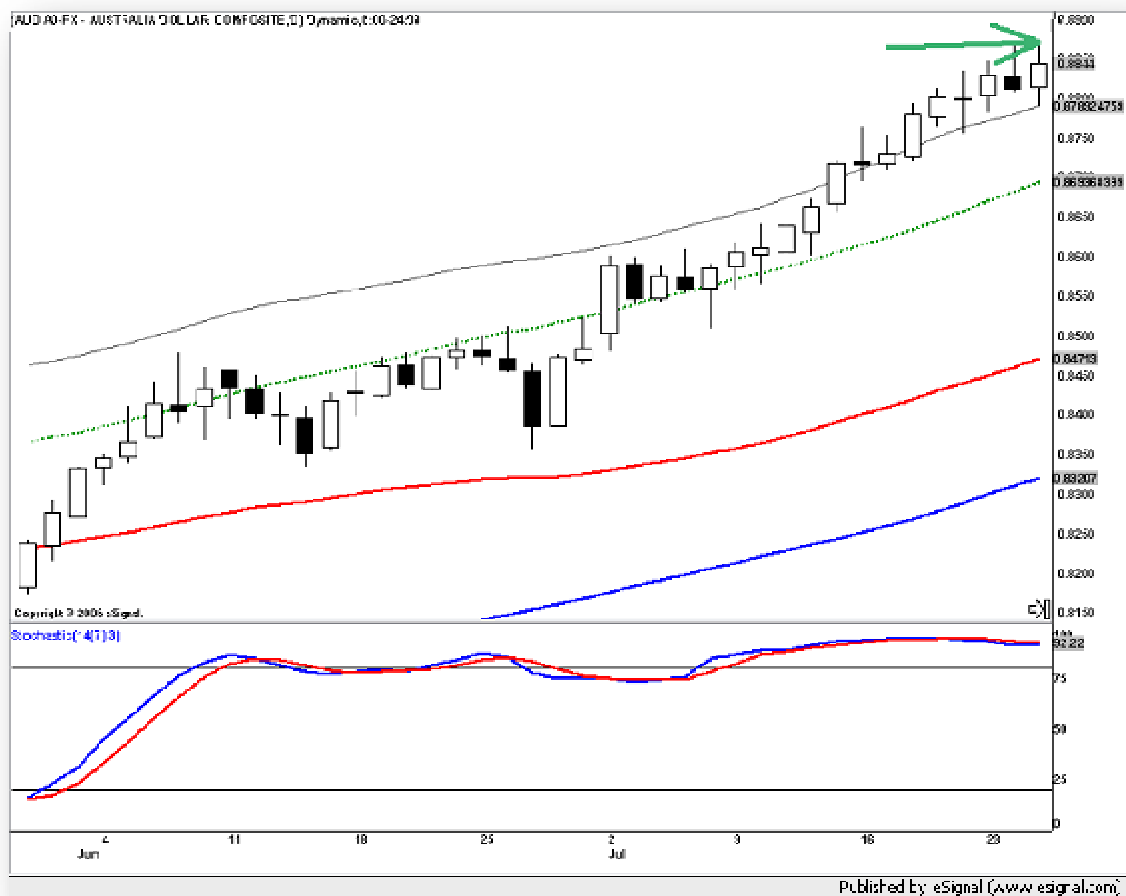
### Chart 38 – Perfect doji candle above the top 100 BB

As the stop loss should be between 50-150 pips in this trading system, I enter the trade short at 0.8796, and set the stop at 90 pips, at 0.8886. The target is 200 pips at 0.8596.

I don't wait for a retracement before entering, because the gap between the entry price and the candle high is so small. If it was

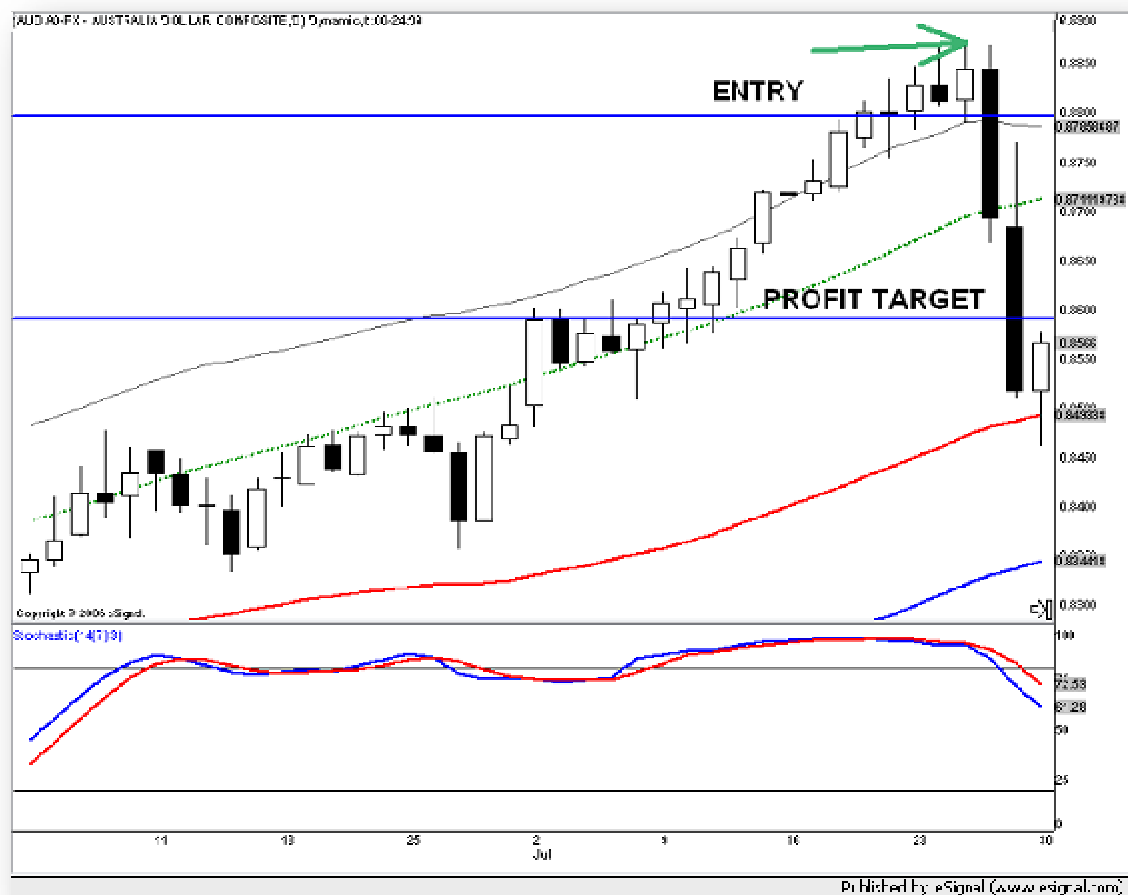
greater than 100 pips, I would consider waiting for a retracement the next day or two before entering. (more on that in the next example)

The price actually moves up over the next 3 days, but continues to make reversal candles in the process. The highest level reached was 0.8873, some 12 pips below our stop loss:



**Chart 39 – 2 more doji's slightly higher than the first one, still above the top BB – but we are already in the trade!**

And then...the big collapse! The price drops through our profit target in 2 days, triggering the profit stop and banking 200 pips:



**Chart 40 – The big pay off!**

Notice how the price dropped to the first SMA support at the 50 day SMA before pausing. This is a logical place to exit if the target is not preset at 200 pips.

## Extreme Swing™ Example 2 Long USD/CHF from lower 200 BB with retracement entry...

In this example, there are several good illustrations of the trading method. On 19<sup>th</sup> April, the Swissy approached the lower 200 BB, and formed a reversal candle. The stochastic is not quite oversold, and has certainly not "touched and turned" The closing price is 1.2046. No entry signal....



Chart 41 – USD/CHF getting close to an entry signal?

The following day, the price rises quite sharply, and it seems as if the opportunity to buy the pair has been lost. In fact, the day after that, it rises further, now 80 pips away from the original “reversal” candle. Note interestingly, the stochastic is still dropping very close to the 20 level and threatening to “touch and turn”:



Chart 42 – USD/CHF getting close to an entry signal? (2)

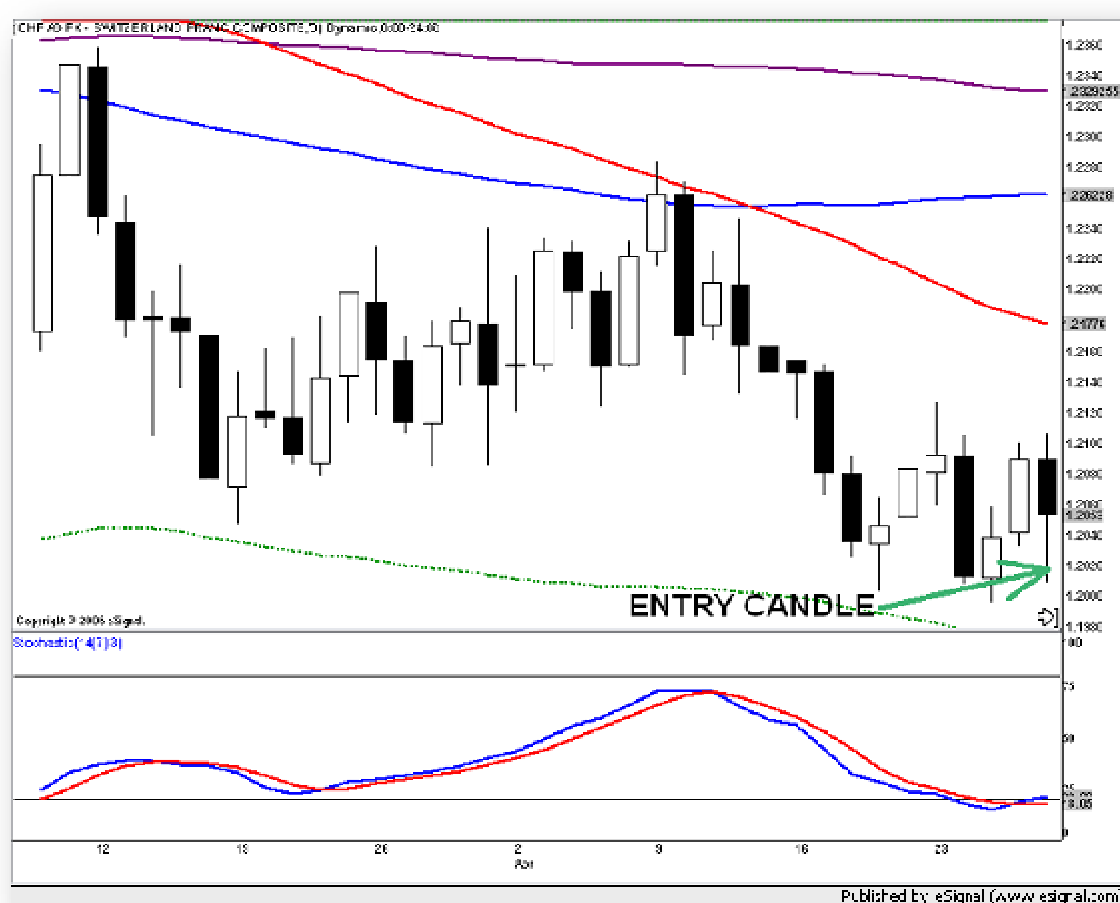
On the third day after the original “reversal candle” the price suddenly drops again, before rising again for two days after that. Still no clear reversal candles, but the stochastic is now oversold and “touching and turning” (incidentally, the level we are at is a major support level – refer to notes for experienced traders):



Chart 43 – USD/CHF getting close to an entry signal? (3)

Suddenly, the very next day, we get a clear reversal candle in the form of a spike low. All the requirements are in place. The price is near the lower 200 BB, the stochastic is oversold and “touching and turning” and the daily candle forms a spike low. Now we are ready for a trade!

The next step is to look at the daily close price and the low of the reversal candle to decide whether we enter the trade at market or we wait for a retracement entry.



**Chart 44 – USD/CHF eventually gives an entry signal spike low**

The candle closing price is 1.2060 and the original reversal candle low is 1.1990 – some 70 pips away.

Hint: In this case, don't use the low of the current reversal candle. (The one in chart 44) It makes much more sense to place the stop below the low of the original reversal candle 6 days earlier, as this is now the bottom of the previous move lower.

In this case we can either enter at the close at 1.2060, or wait for a retracement. Let's assume for this example that we prefer to get a better price and wait for a retracement entry before committing to a long position.

We then switch to the hour chart to time the retracement.

(Hint: this only needs to be done the next day after the European open time, as normally the Asian session is very quiet.

The next chart shows a compressed view of the hour chart exactly where the daily chart entry candle was identified:



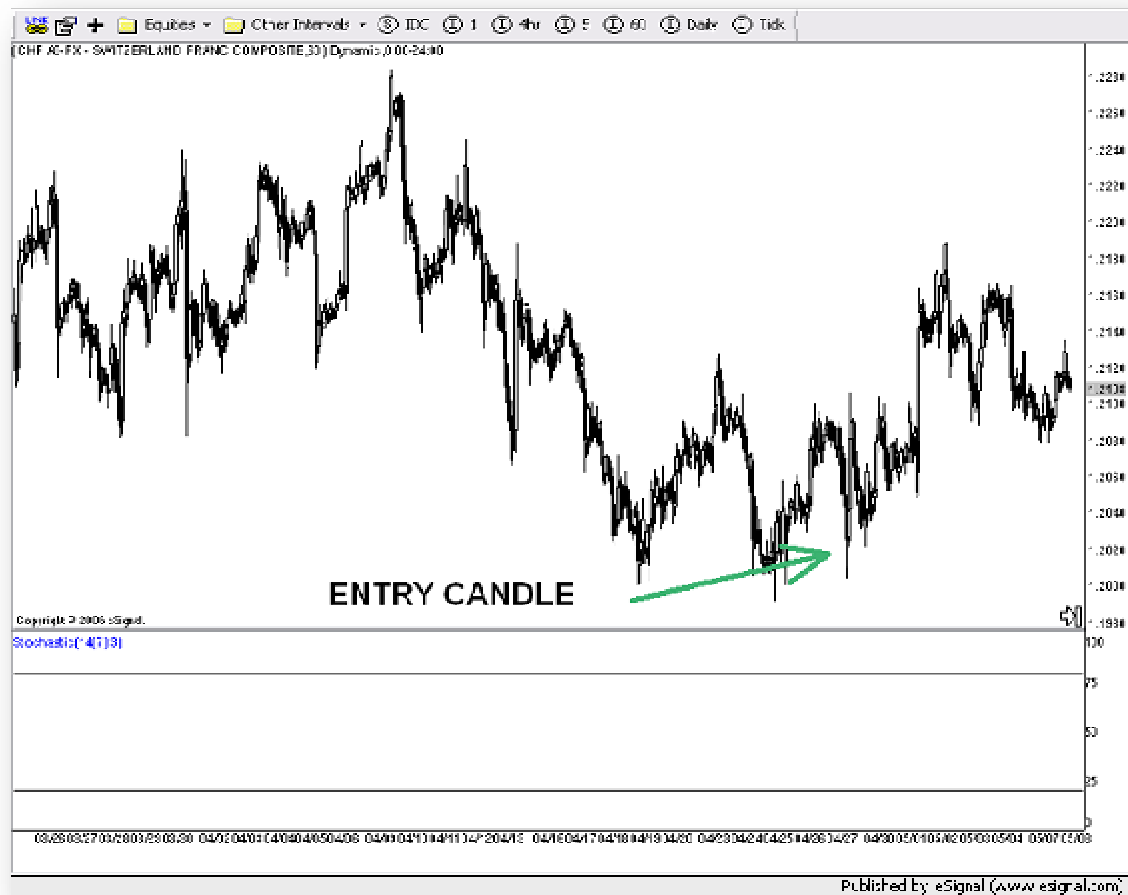


Chart 45 – USD/CHF hourly view of the reversal

Let's expand that to a normal view now to see what happened the next day:

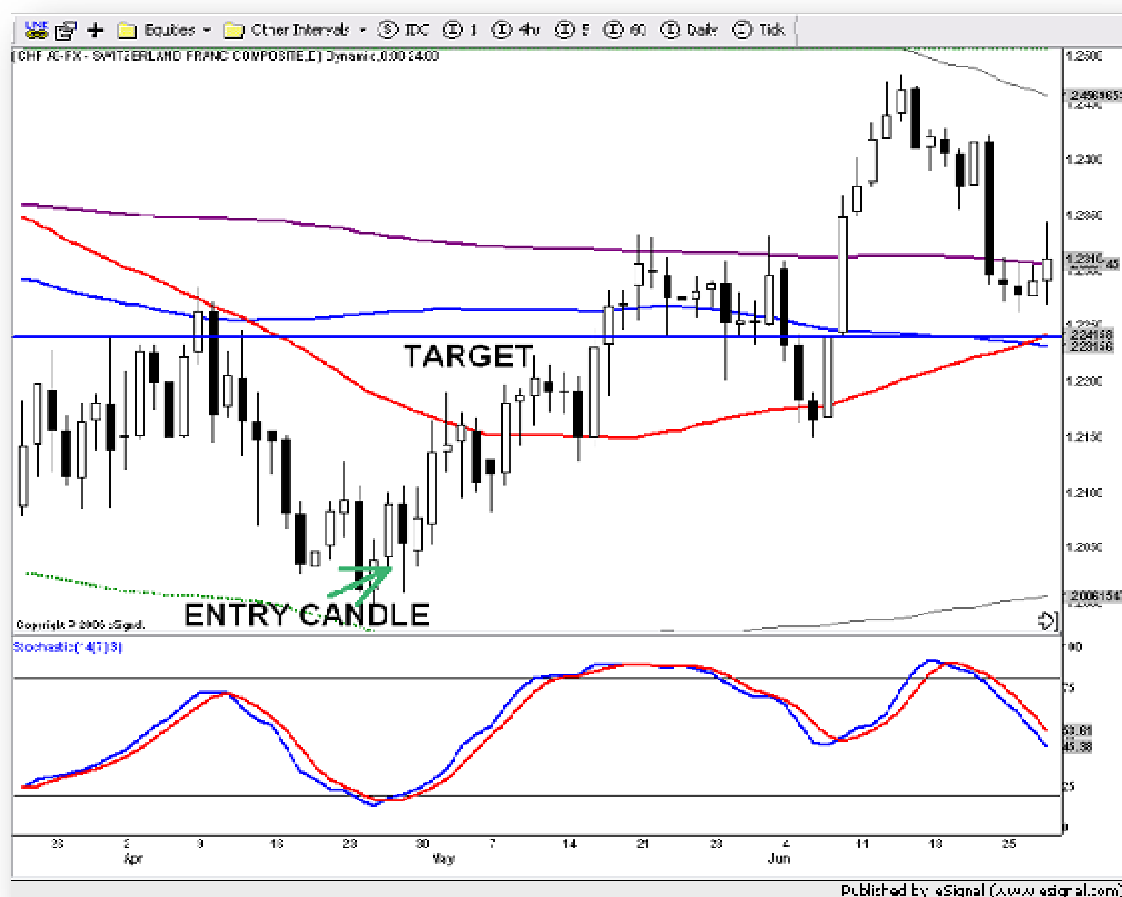
(Hint: I have the same indicators on the hour chart, as they often give very helpful information similar to the day charts!)



### Chart 46 – Expanded USD/CHF hourly view of the reversal

We see here that, interestingly, the hour chart price is supported by the 50,100 and 200 SMA's which are all together on the chart! The green arrow shows how the price dips to 1.2030, and makes an hourly spike low before consolidating for another 10-12 hours and then rallying to put us into profit. The retracement entry could have been taken anywhere between 1.2030 and 1.2050, giving us a 10-30 pip advantage over the original end-of-day entry at 5PM EST.

The trade target should be at least 100 pips, and preferably 200. Let's look back at the daily chart to see how we did with the trade:



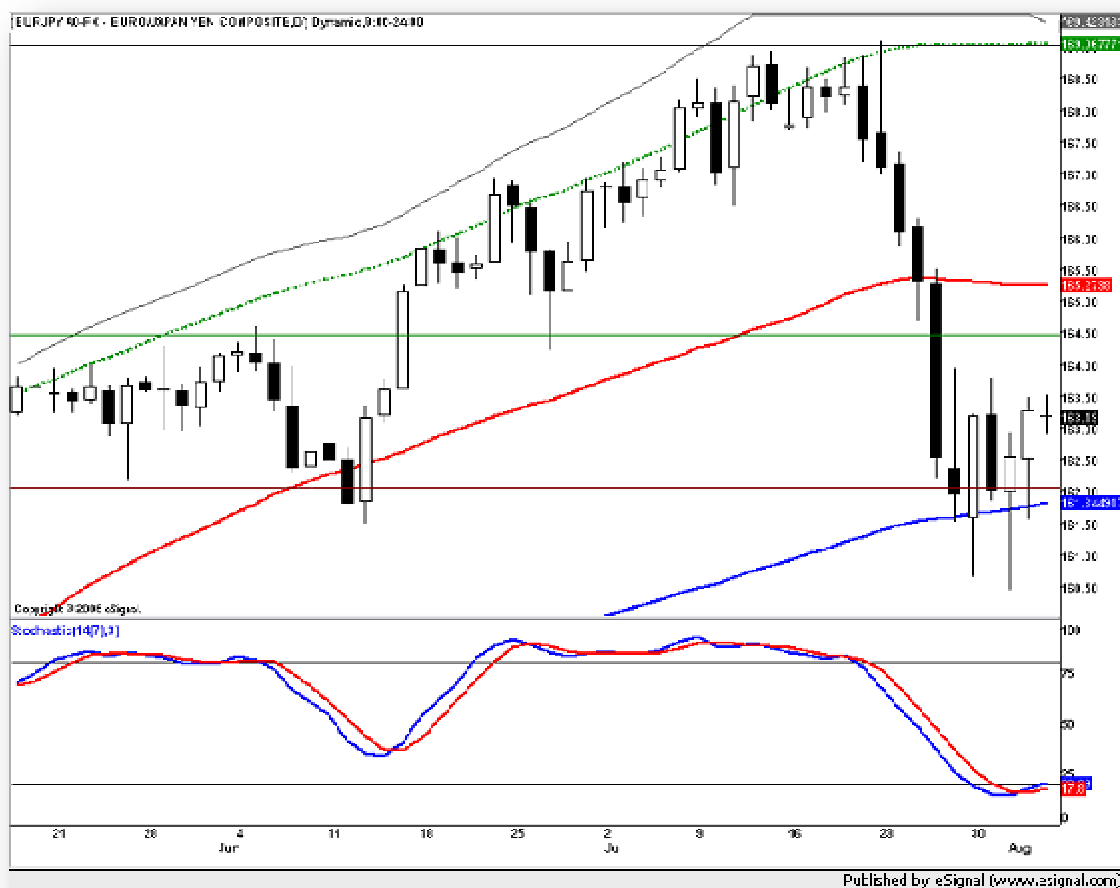
#### Chart 47 – USD/CHF profit target reached.

As can be seen, it took several days before the profit target of 200 pips was reached.

I want to go through one more example of a typical trade entry set up from beginning to end. This should be enough to give you an excellent idea of how the method works in real time.

## Extreme Swing™ Example 3 Long EUR/JPY from 100 SMA - a 5 day set up

The next example is an excellent example which is actually occurring as I write this book. We are looking at the daily chart of the EUR/JPY with the price reacting beautifully at the 100 Simple Moving Average (SMA):



**Chart 48 – A beautiful entry set up for EUR/JPY.**

Notice the price is at the 200 SMA (having spiked through it but not closing below it on a daily basis – this is a powerful signal. Secondly, the Stochastic is oversold and “touching and turning” and there are

several reversal candles in the form of a bullish engulfing candle (5<sup>th</sup> from the left) and a spike low (third from the left). This is indeed an enticing setup and one I would not hesitate to trade.

**I really entered this trade yesterday – here is how:**

Let's scroll back a few days. The first chart shows the picture 5 days before, on Friday at the close of the day and the week.



**Chart 49 – The pair is heading for oversold stochastic and is at 100 SMA support**

Although we are at support, the stochastic is not oversold and the daily candle is not a reversal candle. Action: None, but becoming interested!

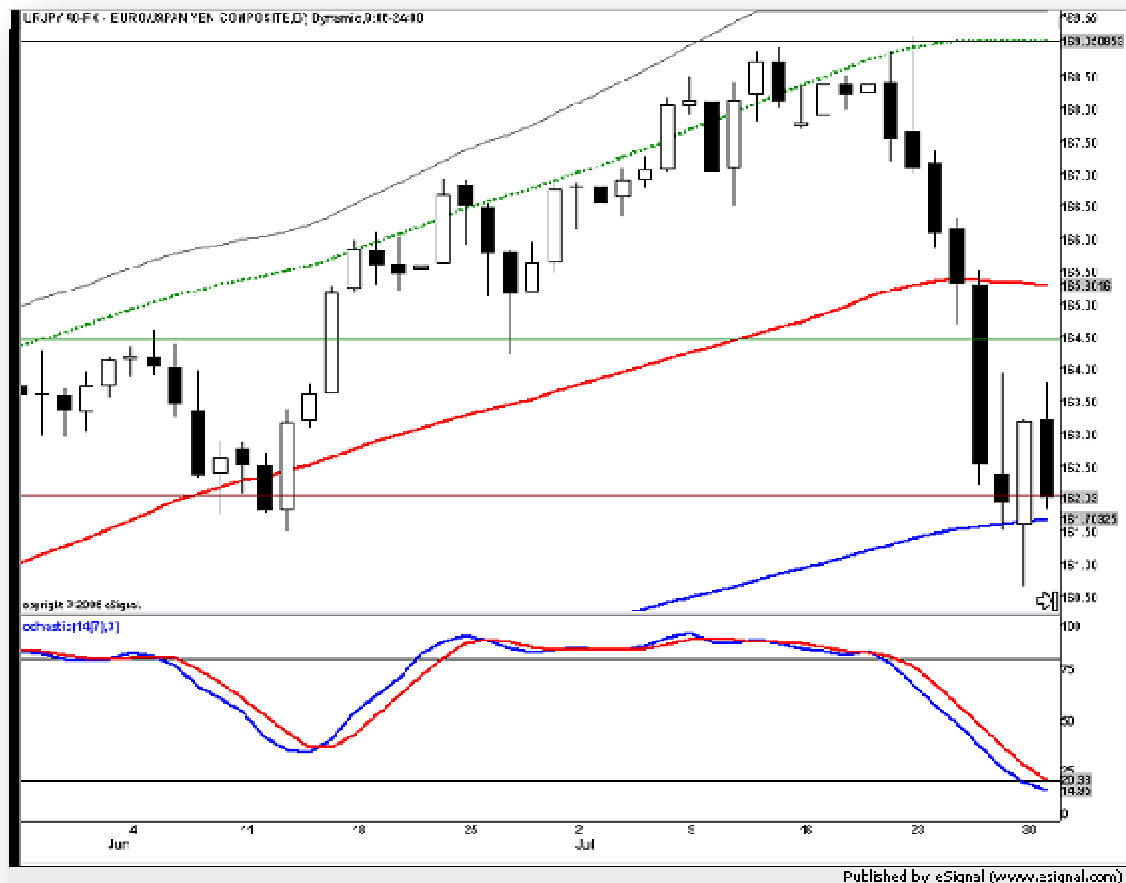
The following trading day (Monday) this is what we got:



**Chart 50 – The pair is heading for oversold stochastic and is at 100 SMA support, PLUS we have a huge bullish engulfing candle at the close of Monday's session.**

Still not all the requirements are in place. I need the stochastic a little lower and to "touch and turn" and I need a retracement as the bullish candle is over 200 pips long – above my 150 pip limit for stop losses.

On Tuesday, the price collapsed back to 162.00, and the stochastic was still not quite correct. The bearish candle formed means I now had a shot at getting the stochastic lower, but it also meant I needed another bullish/reversal candle to place me back in the hunt for an entry.



**Chart 51 – Collapse back to 162.00, but stochastic is becoming oversold.**

On Wednesday, I got what I was looking for – another reversal candle – this time a spike low down to 160.50 and a perfect reversal signal. Notice how the stochastic is now also “touching and turning”:



**Chart 52 – Spike low to 160.50 gives us a reversal signal and an entry opportunity.**

The next questions I had to address were:

Where do the stop loss and targets need to be and should I wait for a retracement entry or enter at market?

Well, these are easily answered... The low of the entry candle was 160.50 and the close of the day price was at 162.50 – a 200 pip gap. This is above the maximum stop loss of 150 pips, so I needed to wait for a retracement of at least 50 pips (down to at least 162.00) before entering the trade the next day. I simply turned off my charts and



resolved to watch the hour chart the next day to grab a retracement entry. The next chart shows exactly this:



### Chart 53 – Thursday's entry on the hourly retracement

This hourly chart shows the spike low on the reversal day, as well as the hourly lows the following day. The price actually dropped to 161.60 – below the required minimum drop to 162.00. Interestingly, notice that I kept the same indicators on my hourly chart – they work in the same way to give me an entry signal! Notice the hourly spikes to 161.60 and the oversold stochastic when the daily spike low occurred.

I entered the trade on Thursday after the spike to 161.60, at 162.00, giving me a 150 pip stop loss, and a target of 200-300 pips (164.00 – 165.00) A study of the daily chart shows that this is easily achievable,

but now that I am in the trade, I will try to trail the stop loss, as I am an experienced trader. Alternatively, I could simply set a 200-300 pip target and leave it to work itself out.

My entry looks like this: Long at 162.00, stop loss 160.50, target 164.00 (min) or 165.00. Now back to the day chart to see how it looks and how we are going on Friday:



**Chart 54 – Potential targets**

Note the price has already begun to move higher, and we have a target just below the 50 day SMA – a logical place to exit on a technical basis. A perfect trade! We will have to wait and see how it turns out, as this trade is still open as I write.

In the chart below, I have added a solid blue horizontal line and a Fibonacci retracement grid to further assist me in profit targets. Experienced traders will see that logical profit targets are 164.50 and 165.80. If I see that the price is heading up there with a good trailing stop system in place, I might even aim for 250 or 350 pips from this trade.

If you are not experienced in these techniques, I suggest reading some of the books on my book list in the beginning of this book, and getting hold of my Forex book for learners at [www.forex-for-learners.com](http://www.forex-for-learners.com)



Chart 55 – Potential targets (2) – Fibonacci and S/R lines

## Summary

The Extreme Swing™ Forex trading method is very simple, yet requires some study to fully master. Once you have mastered it, it is very profitable, relatively stress-free and requires little time.

Remember, you need to get a good grasp of candle charting, and would do well to learn the basics of technical analysis.

I hope this book helps you to join the rest of us who are able to make a living from trading the Forex market. There is no reason you should not succeed with application, study and hard work. The systems in this book will go a long way towards making you successful and I sincerely hope that you will find many, many rewarding trade setups and additions to your bank account from it!

All the best and good luck!

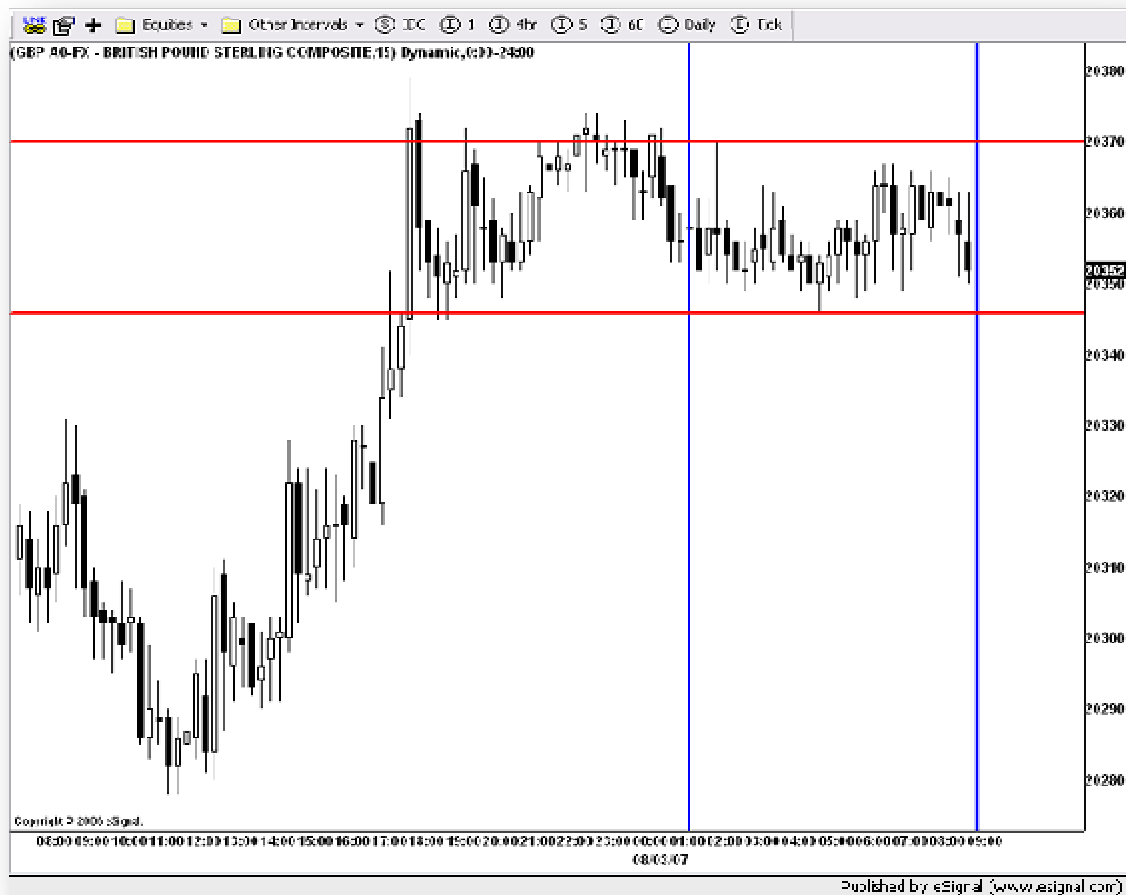
A.F

### Andrew Fields

Professional trader and author.

**P.S. Remember the trade we entered in the GBP/USD on page 21 of this book, using the Power Break™ method? Well the result is in, and here is how it went:**

Recap...



**Chart 56 – GBP/USD power range before the move**

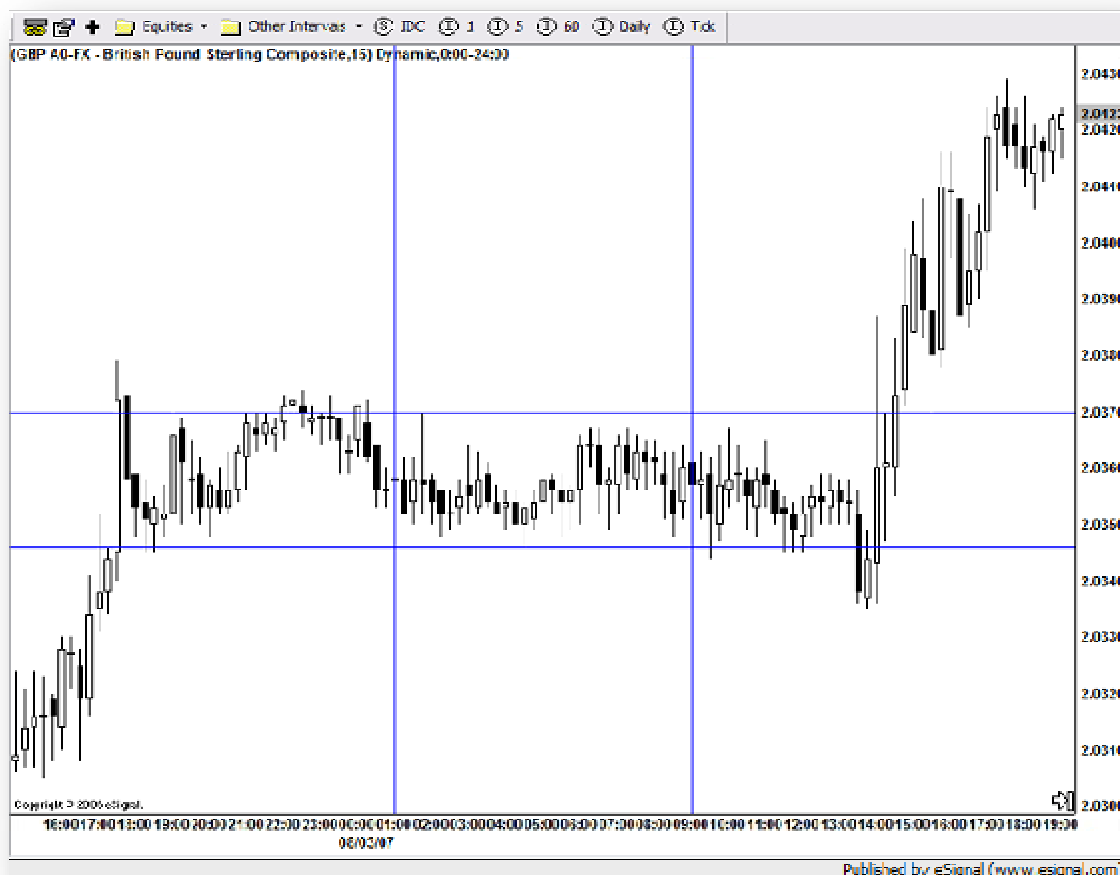
Remember that the power range was between 2.0370 and 2.0345. We set up our orders as follows:

**BUY 2.0385, stop 2.0345, target 2.0425**

**And**

**SELL 2.0335, stop 2.0375, target 2.0295.**

Here is the chart at the close of trading in NY:



### Chart 57 – GBP/USD after the move

Notice that the first move was slightly lower to 2.0336, narrowly missing our entry order to sell! The next move was higher, triggering our buy order at 2.0385, and moving up through our profit target at 2.0425, and banking us 40 pips! A profitable trading day. At 18:00 GMT we removed the sell order, and closed the trading station.

P.S. Remember the trade we entered in the EUR/JPY on page 89 of this book, using the Extreme Swing™ method? Well the result is in, and here is how it went: (Remember this was a real time example)



**Chart 58. Target reached at 165.20 (The 50 day SMA)!**

**That's +320 pips in 5 days.**

**Good luck!**

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