THE ULTIMATE FOREX TRADING SYSTEM

UNBEATABLE STRATEGY TO PLACE 92% WINNING TRADES

Third Edition

MOSTAFA AFSHARI

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Preface

Forex trading is about having a solid trading strategy, having a sound plan to manage your risks, being able to control your excitements during a trade and having discipline. "The Ultimate Forex Trading System-Unbeatable Strategy to Place 92% Winning Trades" is an attempt to create a balanced system of all these four key factors. The result is a high performance trading system quite adaptable to any trading habit and personal lifestyle. This book includes the following topics.

In part one I have explained preliminary but key concepts that every Forex trader need to know. Topics such as support and resistance, consolidation and breakout, the best currency pairs to trade, the best hours for trading and so on.

In part two you will find eight essential Forex trading strategies that have passed my strict criteria to be easy to apply, highly profitable and manageable. Chart patterns trading as a classic trading method is the first strategy that I have explained in this book. Only very high probable chart patterns are discussed and real examples help you to discover their trading potential. In this chapter I have focused on training eyes and mind to predict (with high probability) how the next bar(s) will unfold. Price rejection (a subsidiary of price action) is the second trading strategy that I have discussed in this book. Using price rejection pin and twin bars (that reveals the momentum behind the price) is a classic skill that every professional trader has to know and benefit from it. The third strategy that I have explained is correlation (negative or positive) between currency pairs. Correlation trading is a very accurate strategy that exploits the discrepancy or time lag between two normally correlated currency pairs. Volume Price Analysis (VPA) is the next strategy that I have explored in this part of the book. Under this topic you will see how very simple rules enable you to interpret volume-price interplay and how it makes a real difference in your trading. For those who cannot be involved to trading 24 hours a day and wish to enter long term trades to have enough time to leave their trading room for a few days (or even weeks), long term trading strategy is the solution. Especially, a very highly probable trading method that I have called it Abandoned Baby EMA(5) is a very promising long term trading strategy. The sixth trading strategy uses real time sentiment charts (buy/sell positions) of worldwide traders to benefit from their opinion to forecast how the market will behave in the next hours. Checking multiple time frames is a good method to double confirm entering a trade. It has been discussed in Multiple Time Frame Trading Strategy chapter. News trading as the last strategy has been treated from a statistical point of view. How estimate your chance to enter a winning trade after or during news releases by studying the price history and market reaction to the medium or high impact news and what measures you have to take to manage this type of trading.

Part three is the climax of the book because you will learn to combine all your knowledge about Forex basic concepts and various trading strategies to enter only high performance (more than 90% winning rate) trades. Many real trading examples will guide you to reach this level of trading skills. Money and risk management has been discussed around the very practical concept of risk/reward ratio, the only mechanism you need to control your trades, minimize your risks, maximize your profit and do trade in a very relaxed and comfortable state of mind. And under Psychology of Trading you will find the summary of the best advices to control your psychology during trades and maintain a winner mindset.

Mostafa Afshari
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1. What is Forex?

Forex is the knowledge and art of trading currencies in a way to gain some profit. In other words, Forex market is a place where people buy or sell currencies expecting profit. It is clear that we only buy when we expect the value of a currency will rise and sell when we expect it will fall. All the efforts of a Forex trader are in this way that finds some clues to predict the upward or downward movement of a currency price.

Currencies are usually represented in pairs with US dollar as the base. Major currency pairs belong to the major economical countries. EUR/USD, GBP/USD, USD/JPY, AUD/USD, USD/CHF and USD/CAD are the majors.

2. Profit/Loss Units (pips)

Pip (or pips in plural) stands for point in percent, means one fourth decimal in a unit of currency. For example if the price (or exchange rate) of USD/CAD goes up from 1.0035 to 1.0085 it has changed 0.0050 unit or 50 pips. So, if you buy USD/CAD at 1.0035 and sell it at 1.0085 you will profit 50 pips. In recent years, one fifth decimal i.e. 0.00001 unit (or pipette) has been used widely by the references but for practical purposes pip is more convenient.

3. Investment Units (lots)

A lot in Forex means the portion of trading investment in comparison to $100,000. For example if you invest $10,000 in a trade it will be $10,000/$100,000=0.1 lot. It is very important that you choose your trading lot size according to your account balance. Usually investing 3**%** up to 5**%** of the total balance in a single trade is considered safe.

4. Generosity of Brokers (Leverage)

One of the advantages of Forex market that makes it very attractive is that the brokers usually multiply your investment amount in each trade by 50-500 times. This is called leverage. For example if you invest $50 in a trade with a leverage of 100, actually you will enter to the market with $5,000. In this case your trade lot size will be $5,000/ $100,000=0.05, or if you want to trade 0.1 lot at leverage of 150 you should invest (0.1x$100,000)/150=$66 in this trade. So, your required investment in each trade will be determined by your lot size and the leverage level of the broker.

Using the leverage offer of the broker depends on your choice and there are lots of controversies around it because although you can multiply your profit if you leverage your investment, in the same time there is a risk of a great loss (if the currency goes in wrong direction). But to end this argument we have to say if our trading system (or strategy) is quite reliable and its profit/loss ratio is high why not use leverage advantage. Leverage is bad in a case which the risk of loss is higher than win.

5. Forex Charts

Forex charts are the drawings of currency prices in various time frames. These are drawn in forms of lines or candles (bars). Candle form is traders standard and the most beneficial form for trading purpose because each single candle shows the opening, closing, maximum and minimum of the price in a specific time frame. If a candle body opens at a lower and closes at a higher price it is called bullish or long and is drawn in green (or blue). Maximum and minimum spot prices in the same candle are shown by spikes. If the price opens in a higher and closes in a lower price the candle or chart is called bearish or short and is shown in red.

Candle (or bar) charts are the best visual tool to analyze a trading opportunity. In this way, having top quality charts are very important. A good chart should be clear, exact (both in pricing and drawing) and well-scaled. Only on such a quality chart you will be able to spot prices, compare, evaluate or calculate them or realize the patterns.

Below you can find four quality online charting tools. You should enable Java on your browser to see the charts.

https://www.tradingview.com/e/

http://www.netdania.com/ (go to five star chart under charts tab)
http://www.fxempire.com/
https://www.dukascopy.com/swiss/english/marketwatch/charts/

Exercise 1. Go to https://www.tradingview.com/e/ and type EURUSD (in the top left search box), check candle forms, prices, pips and timeframes.

Exercise 2. Open your trading platform and check its available trading lot sizes and leverages.

Exercise 3. You want to risk only $25 of your account balance on trading. If your leverage is x200, which lot size should you trade?

6. Trend and Reversal

If a currency goes up or down continually for a long time (a few days or weeks), we say that it is in a trend. Trends are caused by large scale (fundamental) economic events or factors (growth, recession, high impact news, etc.). In each trade we have to consider the trend (which I have called it background trend effect) to increase the chance of our success. When a trend ends and start to reverse we call such thing a reversal.

Figure 6.1 An uptrend

Figure 6.2 A downtrend

Figure 6.3 A reversal

Distinguishing a true from a fake reversal is very important in trend trading. There are many simple (Moving Average Cross, Regression Line) or advanced (Hurst Exponent, Market Meanness Index, etc.) indicators and methods that claim to sense the strength of trend and the time of price reversal and signal it to the trader but after study of many of them I concluded that there is not a holy grail method or indicator that tell you precisely if the trend will continue or when the market will reverse. They work but with a significant percentage of error because the price movement has a stochastic and heteroscedastic nature and only God exactly knows what will happen in the future. Also, there is not a meaningful difference between accuracy of advanced and simple methods of trend and reversal prediction. In realizing trend and reversal, maybe experience and a sense of intuition are more helpful. However, two very simple methods can be useful and you can use them to identify a reversal with mediocre success. In the first method you can draw two Exponential Moving Averages for example EMA(9) and EMA(15). When the fast EMA(9) cross over or cross under the slow EMA(15), it is a sign of a reversal. The other method is using of two regression lines. In an uptrend draw a regression line tangent to lower lows and one regression line tangent to the latest two higher highs. If these two lines cross each other in some point it can be a potential reversal point and if not, the trend may probably continue. In downtrend, draw a line tangent to higher highs and a line tangent to the latest two lower lows. If two lines cross each other the cross point can be a potential reversal and if not the downtrend more likely will continue.

Figure 6.4 Confirming a reversal by cross of two regression lines

Figure 6.5 Confirming a reversal by cross of two regression lines

Figure 6.6 Confirming a reversal by crossover of a fast and a slow EMA

Part II

Forex Trading Strategies

12. Chart Patterns Trading Strategy

12.1 The Most Profitable Forex Chart Patterns

For many reasons, Forex charts usually form some repeated patterns. If you work with them and your eyes are trained by looking at them, these patterns are very powerful tools to guide you during your trades. There are many patterns and each of them has its name but to be simple and short I explain here only the most profitable patterns which always work and you can rely on.

12.1.1 M and W (Bat) Patterns

These are the most frequent chart patterns and more or less have M or W shape. Sometimes, one leg extends or another leg gets short.

Figure 12.1.1.1 A W (bat) pattern

These are not very accurate signals but they help you to get a rough estimation of a currency move.

12.1.2 Triangle (Weakening M and Strengthening W) Patterns

Contrary to M and W patterns, triangle (or weakening M and strengthening W patterns) are very accurate signals (0.8 or more probable). A weakening M is formed when an upward (bullish) move is completed, then a weaker downward move (one third or half of the first move) happens and then a very weak bullish (usually one candle) comes after it. After completion of the third move you can say with a high confidence that the currency price will sharply drop. This is the place you should sell the currency and make a nice profit. Strengthening W pattern has just the same story but in a reverse order.

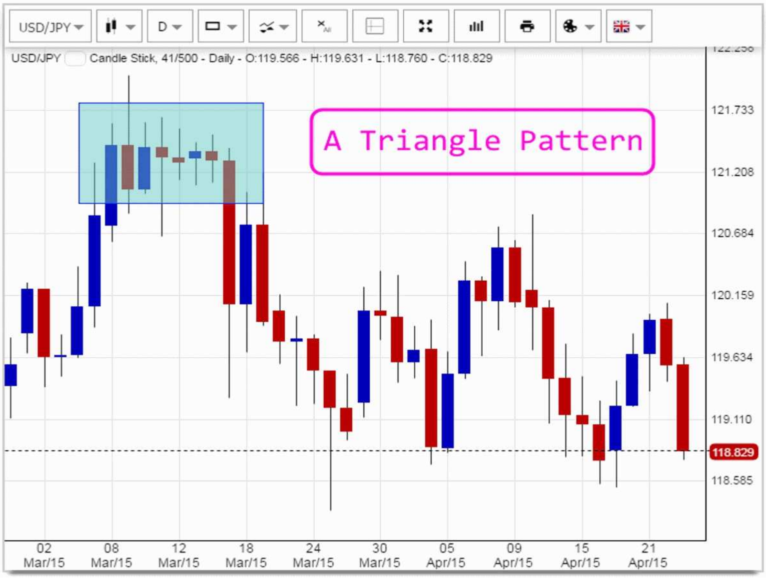

Figure 12.1.2.1 A triangle pattern

The price in triangle patterns usually converges to a tight range and then tends to breakout. I love triangle patterns because they are very strong signals and nearly always are correct.

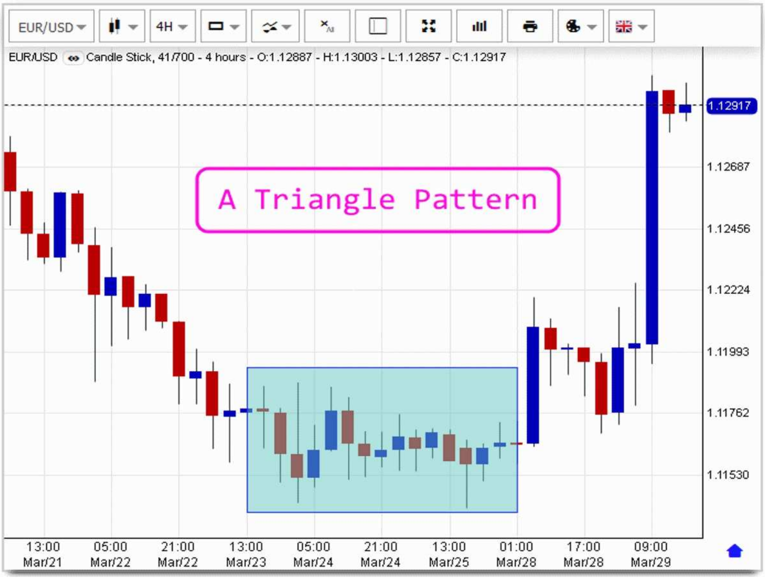

Figure 12.1.2.2 A triangle pattern

12.1.3 Cascade (Weakening Upward or Downward) Patterns

These are in fact upward or downward price moves that follow a curved path and get exhausted during the time. For example, an upward move starts with three bullish candles, then follows by one bearish candle, then two bullish and again one bearish and hence forth. It is obvious that the move gets weaken and then tends to reverse (a major or minor reversal depends on the significance of support or resistance level, for example if a weakening upward cascade reaches a major resistance level a big reversal is highly

Figure 12.1.7.3 A double bottom pattern

Exercise 6. Go to https://www.tradingview.com/e/ and draw a few major currency charts and try to realize any of the most profitable patterns (triangle, cascade, head and shoulders).

13. Price Rejection Trading Strategy

As I said before, candles are the most beneficial visual presentation of the currency prices. There are two types of candles. A. Full body candles and B. Pin bars. A full body candle is a candle that opens exactly at the beginning of a time frame and closes at the end of that same time frame. So, the candle has a full body without any pin and its maximum and minimum prices are the same as its opening and closing prices.

A candle with a maximum or minimum price differs from its opening or closing price is a pin bar. A pin bar may have only one pin at its head or tail or two pins at both sides. Pin bars are very informative and show the underlying acting forces on the price. When a head pin bar forms in a resistance zone it means that the maximum price has been rejected by the market. A taller pin means a stronger price rejection by the market. So, appearance of head pin bars in resistance zone tells us that the currency pair is overpriced and has passed its economic potential and hence a reversal is on the way. Just the reverse scenario is true for tail pin bars in a support zone. Note that we may see pins in a time frame (for example 4-hour chart) but can't see them in another time frame (for example 1-hour chart). So, we should always shift between different time frames (1, 2, 3 and 4 hours) to check if there is any pin or not.

Imagine pins as forces that push the price up or down and give it a momentum. Taller pins cause stronger forces and give the price a bigger momentum. Besides other factors (including current price distance from moving average), the length and number of pins can give us an estimation of price momentum and how far it may go because of this momentum (to reach the first, second or even third nearest support or resistance level). This largely helps us in determining the take profit target (see chapter 21).

Sometimes there are two or more consecutive head pin bars in resistance zone. Forming such pattern is a very reliable signal that the price will not remain in that level and will drop.

Figure 13.1 A strong price rejection at resistance level

Just the same, forming more than one tail pin bar in support zone is a strong signal that the price has a big potential to rise.

Figure 13.2 Consecutive price rejection

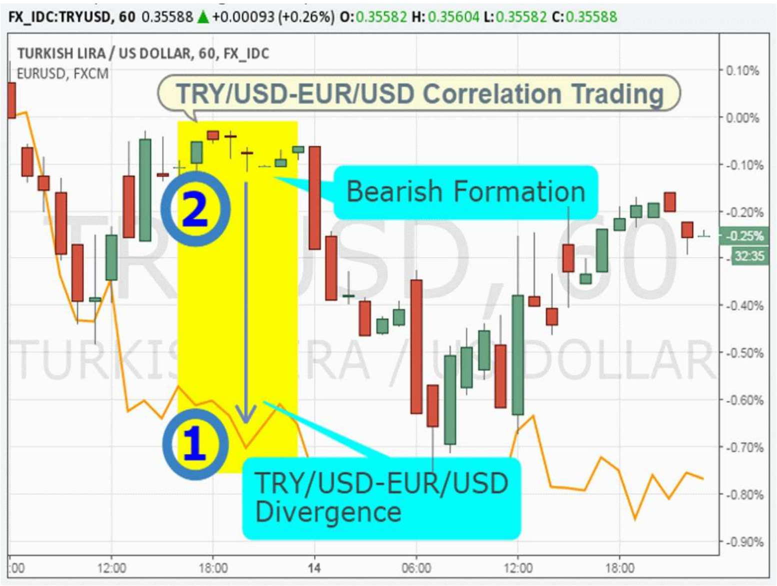

Figure 14.1.2 A correlation trading opportunity

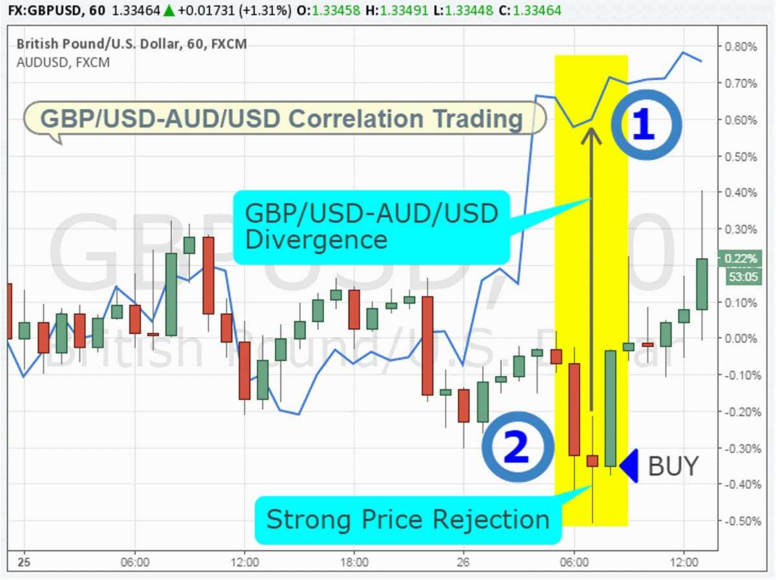

Figure 14.1.3 A correlation trading opportunity

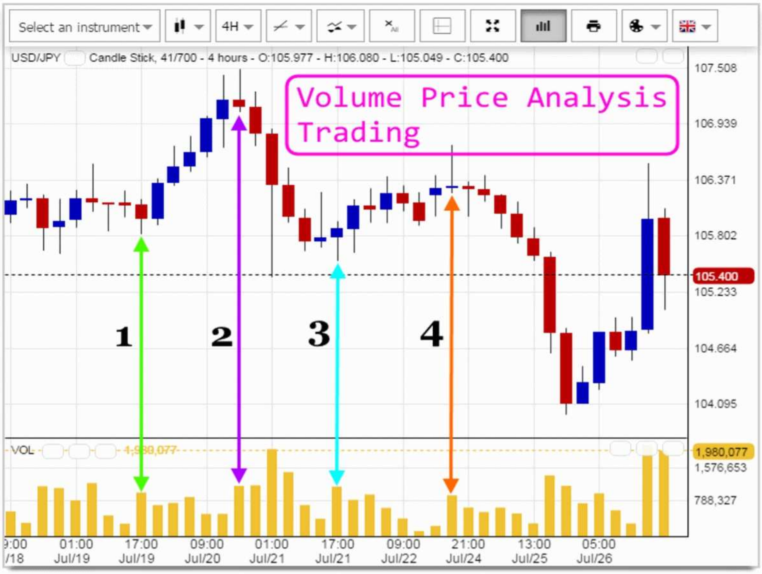

Figure 15.2 Volume-price analysis trading

On the above picture, arrow 1 shows a short bar but the volume spike signals the end of the downward move and dominance of the buyers. As you see, a long move starts immediately. Arrow 2 shows a short head pin bar. The relevant volume spike signals that sellers have taken over at higher high and the next short move is confirmed. Arrow 3 and its volume spike indicates the dominance of the buyers at support level (lower low) and hence a long move is expected (that has already happened). Arrow 4 shows an evening star pin bar at resistance level. The spike informs us that a short move is on the way.

Exercise 10. On historical Forex charts activate volume indicator and find some volume spikes. Try to interpret the price changes in relation with the volume spikes.

16. Long Term (Daily, Weekly, Monthly) Trading Strategy

If you cannot or don't want to sit in front of your laptop or desktop screen all day long and monitor short term (1H or 4H) charts, or short term trading does not fit your lifestyle, a substitute is to trade on daily, weekly or even monthly charts. This style of trading gives you this possibility to set your target price far enough from the current price and leave your trading room for hours or days.

Another big benefit of long term trading is that contrary to short term (1H and 4H) trading that you have to analyze the market in just a few minutes and take your decision, in long term trading you have hours (in daily trading) and days (in weekly and monthly trading) to thoroughly analyze the market and fully contemplate about you trading decision. I really love this anticipation time because make me able to take the best trading decision relaxed and free from any psychological pressure (that is a significant factor in taking wrong trading decisions).

However, in long term trading the rules are just the same as short term trading. Chart patterns, price rejection and volume analysis are used just as the short term analysis. In long term trading you have to train your eyes to detect the best, high probable patterns by watching the charts. This practice is also required for price rejection and volume-price-analysis strategies (for details of these strategies consult with chapters 13 and 15). Look at below typical long term trading examples to get some ideas.

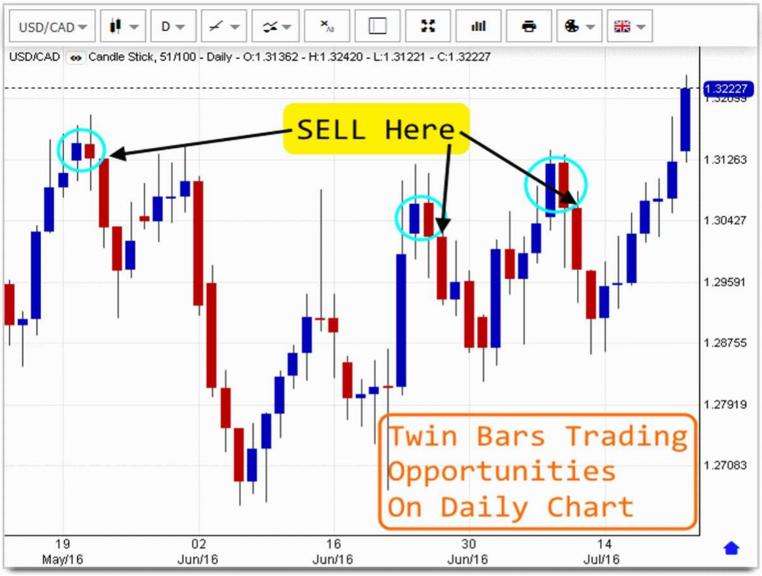

Figure 16.1 A long term (daily) trading opportunity

Figure 16.2 A long term (daily) trading opportunity

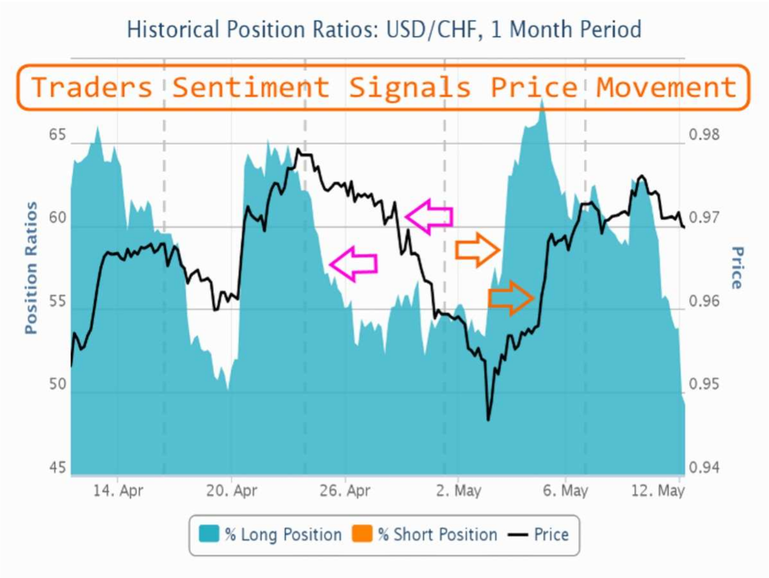

Figure 17.2.1 Traders sentiment as a leading signal

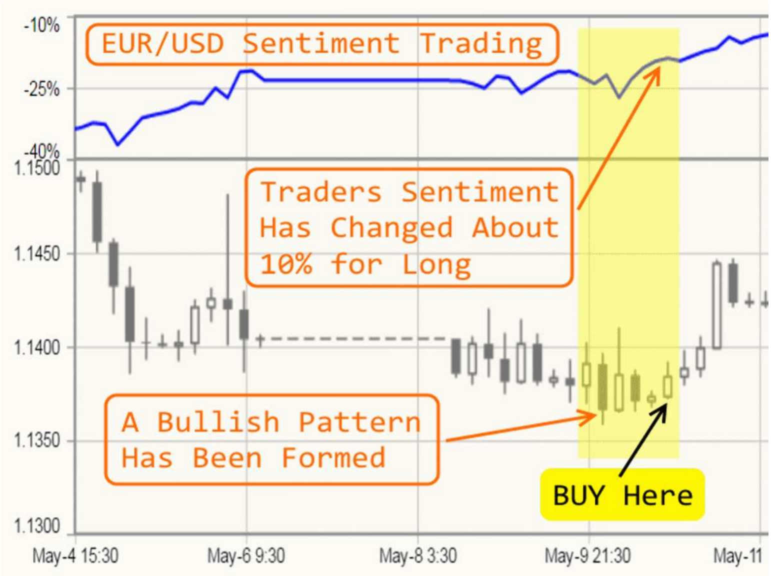

Figure 17.2.2 A sentiment trading opportunity

Now, we can trigger a short trade (stop loss at 0.7675 and take profit at 0.7625) minutes before the news release or open a stop loss order (with the same SL and TP targets) and wait for the result of our trade. On the pictures, trade entry point is shown by yellow arrow.

19.4 My Remarks on News Trading

All in all, news trading is an aggressive type of trading and I advise you to avoid it if you are a Forex novice or your trading account balance is not high enough. For example, those who have started Forex in the past few months or those who have started by $100 or $200 should avoid this type of trading. News trading is more suitable for experienced traders and big account sizes. I advise amateurs to stick to the low risk, more stress free proven trading strategies (that I have explained in the previous chapters) to gradually increase their knowledge, skills and indeed their account size. If you have free time you can start news trading (in demo accounts) according to my strategy to learn the tweaks and tricks. After acquiring necessary skills and confidence, you can cautiously start this type of trading in real accounts (following the strict rules and doing small lot size trades) to become a news trader.

Although traditional Forex trading is quite adequate for you to reach your financial desires, news trading is another option for you to choose. However, you are not forced to do it. Look at it as an additional option and if you found it a comfortable trading style, try it and enjoy.

7. Sometimes the market doesn't offer you any trading opportunity for a few hours. In these cases do nothing and wait. Patience is a key factor in trading. Bear in your mind that you cannot stimulate or manipulate the market to create a trading opportunity. The only qualified entity to signal you the perfect trading moments is the market. Just wait until the market call you for a trade.

Trade Checklist	
A. Trade Info	
☐ Currency Pair ☐ Time Frame ☐ In Direction of Trend ☐ Major News Release Ahead	Remarks:
B. Used Strategies	
☐ Chart Patterns ☐ Price Rejection ☐ Correlation ☐ Volume-Price-Analysis ☐ Sentiment Analysis	Remarks:
C. Money and Risk Management	
☐ Equity Exposure % ☐ Entry Point ☐ Stop Loss Target ☐ Take Profit Target ☐ Risk/Reward Ratio	Remarks:
D. Trade Psychology	
☐ I Feel Good ☐ I Am Indifferent ☐ I'm In Doubt ☐ I Feel Bad	Remarks:
Trade Result	
☐ Premature Stop ☐ Stop Loss Hit ☐ Take Profit Hit	Mistakes: Lessons:

Figure 23.1 A pre-trade checklist card

24. Psychology of Trading

Excitements and psychology have a big impact on trader's performance. There are many traders that simply fail because they can't control their excitements during trades. But, as I have a motto that "every average person can do Forex successfully", I'm sure that by training, using right trading strategies, right money and risk management methods and following a solid trading plan, all the bad habits and psychological obstacles can be overcome.

Having a trading strategy fit to your personality, lifestyle and daily habits (a strategy that you feel comfortable with) is a key factor to control your psychology and excitements during trades. The main reason that I have introduced a collection of various strategies in this book is to give the trader a vast option to choose his/her best suited one(s). A practically high winning rate strategy is the first step to boost your confidence and decrease your trading stress.

Stress comes from uncertainty. More uncertain you are about the outcome of an event, more stressful and panic you will be. So, if you can get assured (to some good extent) about your trade, your stress will dramatically lessen and you can control your psychology during the trade. My emphasis on the accuracy of the trading strategies comes from this fact that I think it is a very significant factor that you can rely on to overcome the stress of trading.

The second step toward controlling your psychology in trading is a simple, sound risk management plan. In chapter 21 I urge the trader to set the best stop loss and take profit targets and calculate risk/reward ratio of any sought trade before entering it. If you know that your money and trade is under full control, there is not any reason to be stressful or panic. To give this a 100% practical usability I highly recommend you to prepare a pre-trade checklist (see chapter 23) and write down the full analysis of your trade (including the strategies or signals used, stop loss and take profit targets, risk/reward ratio, psychological mood, etc.). In fact, the aim of this practice is to transfer trading process from mind to paper and from a psychological to a mechanical state. As much as you can detach your expected trade from your mind (and hence psychology) and do a pre-trade on paper, you will be able to make more realistic trading decisions.

Always bear in your mind that the market is a separate thing from your mind. Sitting in a confined place in front of your computer may mislead you that the market acts according to your wish and desire but this is completely wrong. The outside world acts on its laws in effect of many real factors that are absolutely not under your control. Some novice traders make this big mistake and trade without realistic analysis too optimistic to succeed. A positive mindset needs for successful trading but don't forget that only doing accurate, realistic analysis you will reach your goals. You decide on the market, not the market act on your wish or desire.

What you read is a free sample of "The Ultimate Forex Trading System-Unbeatable Strategy To Place 92% Winning Trades."

You Can Download This Book Here: