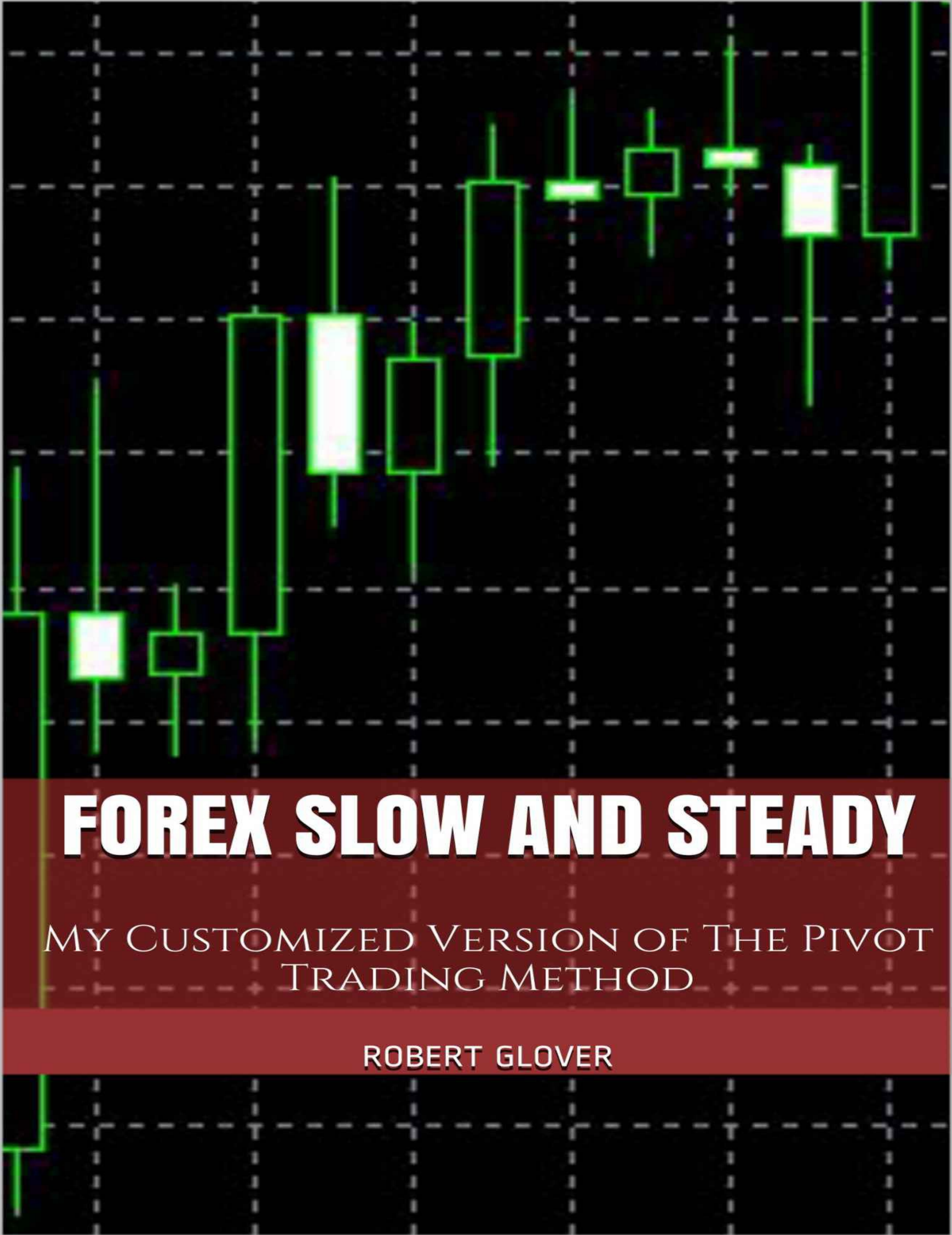

FOREX SLOW AND STEADY

My Customized Version of The Pivot Trading Method

ROBERT GLOVER

FOREX
SLOW AND STEADY:

My Customized Version of The Pivot Trading Method

By: Robert Glover

Introduction

Welcome to the wonderful, exciting, and scary world of Forex trading. I am going to begin with some points and tips that I wish I had known before I started trading and then I will go over my system. This is not an exhaustive book on currency trading and is not meant to take the place of demo accounts and your own research. I am assuming, and yes, I know what that means, that if you are reading this book to learn my trading system/method, you already have some Forex trading knowledge. If not, please review the resources detailed at the end of this book to learn about Forex in greater depth. The more you learn, the better equipped you will be to trade Forex.

Always remember that trading is risky. Nothing is certain and there is no way to predict future movements in the market. However, I also don't consider my trading of Forex to be gambling as I put in significant time researching new styles as well as refining my current trading style. I will show you later on in this book some of the research that was utilized to shape the trading system I use on a daily basis. Making trades and/or transactions without knowing something about the trade or purchase is a dumb way to approach any portion of commerce.

I am constantly looking for ways to improve my trading system, so use this as a tool and don't assume trading this way on a permanent basis will result in massive wins. I have learned the hard way not to be greedy when it comes to trading. A system that promises huge wins and very few losses (if any) is exactly what you know it to be: too good to be true. I have lost significant percentages of my deposits (sometimes entire accounts) to my own greed and the promises of automated trading systems that look good for a while, but can lose everything in a matter of a couple trades.

In short, I don't make any promises about profits after reading and applying the lessons in these chapters. I do make a plea to you that I make to my son; learn from my mistakes so you don't have to make the same ones yourself. Granted, some of the best lessons are the ones you learn from falling the hardest…tough love or trial by fire comes to mind!

Good luck and happy trading!

About Me

I am a Professional Engineer with a mechanical engineer degree and a minor in mathematics. I am a Christian who fully believes that I cannot subvert God's will. I have been blessed with so many things that I am not worthy of and I would be remiss if I did not mention where my strength comes from.

I started trading several years ago and lost money in all but my last three years. I have made enough mistakes for me, you, and most others I can think of (granted my son still thinks he can make new ones!)

I mentioned my son, but there are others in my family. I am married with a total of three kids, two horses, two dogs, and (thanks to my wife and daughters) five chickens.

I love life and doing things with my family. I also found that I enjoy something many people don't enjoy…I like looking at data to determine patterns. According to my wife, this is a strange gift that I want to use to help our family and others.

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What is Forex?

Forex is the term used for foreign currency exchange or foreign exchange (ForEx). You might have heard how the dollar is strengthening or weakening against another currency (maybe the Euro or Yen). Maybe you have been traveling outside of the US and had to get your dollars converted into the local currency. Forex allows you to buy and sell currencies around the world from the comfort of your computer. The Forex market is open for trading six days a week. If you watch the GMT (Greenwich Mean Time), you will see the Forex market open on Monday morning (12am) and close when the US markets end on Friday. Technically this is only 5 days; however, since I am based in the Eastern Time zone the markets open for me on Sunday evening which make is every day except Saturday. This way you can take Saturdays off to renew your sanity!

So, let me give you an example of this foreign currency exchange to help:

At the beginning of my trip to Tokyo, I have 100 USD (US Dollars) that I want to convert to Japanese Yen. If the current exchange rate is 100 Yen for every 1 US Dollar, you would have 10,000 Yen after your conversion (you sold US Dollars and bought Japanese Yen). Strangely, after spending a week in Japan I never spent my money (my kids will be upset that they didn't get any gifts!). I go to convert my 10,000 Yen back into US Dollars, but due to market moves and news releases, the exchange rate is now 105 Yen for every 1 US Dollar. My 10,000 Yen is exchanged for 95.24 US Dollars. I just lost 4.76 US Dollars even though I didn't do anything with my money but exchange it.

The opposite can also happen and I might have made money during my week trip in Japan. The currency exchange market opens up numerous pairs of currency for you to buy and sell in the comfort of your house.

The above example equates to the USD/JPY currency pair. Most major currencies can be traded in similar pairs: EUR/USD (Euro/US Dollar), GBP/JPY (Great Britain Pound/Japanese Yen), etc. The first currency listed in the pair is the "base" currency. If the USD/JPY number goes up it means the US Dollar is strengthening against the Japanese Yen. Conversely, if the USD/JPY chart is going down then the US Dollar is becoming weaker against the Japanese Yen.

Market Watch: 16:16:57

Symbol	Bid	Ask
AUDCAD	1.00533	1.00547
AUDJPY	95.433	95.445
AUDNZD	1.07673	1.07689
AUDUSD	0.94228	0.94237
CADJPY	94.920	94.935
CHFJPY	114.191	114.207
EURAUD	1.45273	1.45291
EURCAD	1.46057	1.46070
EURCHF	1.21413	1.21426
EURGBP	0.80004	0.80014
EURJPY	138.652	138.666
EURUSD	1.36901	1.36907
GBPAUD	1.81575	1.81588

Figure 1

The table shown in Figure 1 only shows a fraction of the currency pairs available for trading. You also see that there is a "Bid" column and an "Ask" column. The prices shown in the Bid column is the price you pay to buy the currency pair (you expect the chart to go up) and the Ask column details the price for the sale of the currency pair (you expect the chart to go down). Think of this like an auction, a bid is a quote to buy the item in question. At this same auction I am asking a certain price for an item I want to sell – Bid=Buy, Ask=Sell.

The difference between the Bid and Ask price is the spread. If you were to buy the AUDCAD pair listed on the table above you would enter the trade at 1.00533. The currency pair would have to move above the sale (Ask) price (above 1.00547) before you make money. In other words, the spread for this example would be 0.00014 which is 1.4 pips. The currency prices in Figure 1 are given to increments of 1/10th of a pip (or unit of movement). The spread is one way in which a brokerage house makes their money. Some firms offer low spreads on certain highly traded currency pairs and some firms offer fixed spreads which means that during high volume trading, the spreads won't increase. Some brokers utilize a combination of spread and commission per trade. You can research Forex brokers to see what will work best for you.

The movement of the currency pairs is due to trends and news releases and is tracked on a chart that has time increments. You can review charts and trends from one minute increments through monthly. This means that on the chart, the movement of the currency over the specified period of time is noted as a line or candlestick.

Figure 2

The chart shown in Figure 2 is a snapshot of the EURUSD currency pair with each candlestick representing the movement of the currency pair over four hour increments (H4). The thin lines show how far the pair moved during the time segment and the wider portion shows where the currency pair opened and closed for the same four hour segment. This chart here indicates that the pair moved up when the open box of the candlestick is empty and moved down when the open box of the candlestick is white. It seems redundant to mention this, but with small candlesticks and large charts, the coloring can really help. You can customize your charts to look however you want to suit your trading needs.

Now I want to explain some details on the candlestick shapes that will help you when I am discussing my system. When I am talking about candles and the highs or lows associated with the candles, I mean the lowest portion or highest portion of the candle. A candle is made of four parts, Open, Close, High, and Low. The Open is where the candle starts at the beginning or creation of the candle. For anything other than Sunday openings, this point is the same as the Close of the previous candle. Now for the Close, as you probably guessed is where the candle stops during its timeframe before starting a new candle. The High is the highest value obtained during the candle’s life. The Low is the lowest value obtained during the candle’s life.

Please remember that this is only a very brief overview of Forex. There is so much more you can learn through reading, online classes, and your own experimentation. I have several resources listed in the last chapter that can help you learn more about all aspects of Forex.

Demo Accounts

Do you like throwing away money? Have you ever jumped into a get-rich-quick scheme to only find that you have lost more money than you made? Forex trading is seen by many as the get-rich-quick option that will solve all of their needs. Don't get me wrong, if you research and trade wisely, you can get decent returns. You could even master Forex trading well enough to make excellent returns. However, more often what happens is people invest needed money and come away with nothing.

One of the reasons why people lose significant funds in Forex is because they try to make quick wins and trade without learning how to trade. Some people think they are smart enough to trade without practicing and they can be quickly humbled. Practice trading comes in the form of Demo Accounts.

A demo account is exactly as it sounds, you have fake money in an account through a trading company/broker, and you can buy and sell currency pairs without risking anything. Demo accounts are good ways to try out different trading strategies that you feel might work, but it is also a good way to try out the various trading brokers to determine which company is best for you.

You can have several demo accounts open and try several different strategies at once, but I would suggest you keep notes on trades made and their results. Try different currency pairs and different time frames as a trading system may work well for one specific pair and time frame, but not others. Look over the charts and find patterns that you can utilize to make profitable trades.

There are pros and cons to trading on a demo account. The pros definitely outweigh the cons, so never start trading with real money until you feel comfortable with a demo account. I jumped in too early and too confidently and learned several painful lessons. Some of the pros are listed below:

1. Learn/develop a trading strategy – Not only can you try out the trading strategy detailed in this book, but you can be creative and look for trends or breakouts of your own.
2. Research different strategies – You can trade multiple pairs and timeframes and gather data that will help your profitability down the road.
3. Become familiar with trading platforms – You will need to practice how to set trades as well as many other aspects of trading. There are many tools available on trading platforms that you can play around with without risking your money.
4. Learn trading discipline – Once you have a strategy in place you may be inclined to change it in the middle of a trade or start second-guessing your trades. You must learn to be disciplined to follow your strategy through on each trade made.
5. Develop trading rules – Every trading strategy needs to have rules that you abide by for every trade. This goes along with #4, but early on I found that, by having written rules in place you are less inclined to deviate due to whims and emotions.
6. Learn to eliminate emotional trading – This is difficult to learn on a demo account, but it will come into play on a live account. I have made many mistakes due to emotional trading and they all have cost me real money.
7. Learn that you can't WISH a currency pair back in your favor – This goes in tandem with #6 above. Just like playing golf or bowling when you lean your body to the side to push the ball in the desired direction, you can try and tell or convince the currency pair to turn around, but it doesn't normally respond to visual cues.

8. Learn how to set reasonable limits to your losses – You will lose money at some point in time during trading. Protect your investment and learn what your profits and losses need to be to have an overall positive outcome. I will talk more about this later.
9. Learn to not be greedy – This is a good lesson for all of life, but will help you better manage your trading system/strategy when the market moves. Stick to your rules and do not look to deviate from your rules to make up for losses or increase gains. It generally does not work well in the end!
10. Learn to manage your expectations – Expect losses to occur. You may get started and expect to only win and have profitable trades. Be ready for losses; however, expect to win more than you lose.

With all of these PROS, what could possibly be the CONS to a demo account? Well, as stated earlier, I would never start trading without a demo account; however, I have seen firsthand how a demo account does not react in precisely the same as a live/real account. You might have a great system that has a large percentage of wins versus losses and the profit margin is great, but when you decide to start live (real money) I would still start off with the smallest trade possible for a little while and make sure it is working the same as planned.

Always remember that there are no certainties when it comes to the market movement and you can lose money. There are no fortune tellers giving Forex trading tips that I know of. Be prepared and only trade amounts that you are willing to lose. Plan to use Forex trading as a way to diversify your accounts and make some good returns. I am satisfied right now with averaging 10-20% profits per month. I could risk more to win more, but I could just as easily lose more.

Automated Traders / Expert Advisors

Automated Traders

Are you waiting for the cars that drive themselves? Do you like the idea of putting money into something and winning big without you having to do anything? Sounds great right? A program that makes your trades automatically, without you having to even be at the computer, is called an automated trader. There are systems or programs that promise 100% profits each month. There are ones that claim a 98% win percentage. There are systems that sound like Midas himself touched it. You can probably find some decent systems out there for Forex trading that actually produce profits without risking your entire account; however, I have found through experience that the old adage is true: if it sounds too good to be true, it probably is.

Automated traders are programs that you can attach to your trading platform and it will make the trades based upon the strategy and rules embedded in the program. This is exactly how I want to trade and would hope that you trade – abiding by the rules and strategy created without deviation due to emotion or greed. I have even thought of turning my system into an automated system so that I don't have to check my charts at midnight and 4am.

Some of the systems that promise high rates of returns do so at significant risk. I prided myself on the research I put into the automated systems and thought I had one that produced decent returns without much loss. I purchased the system and placed it on my demo account and it performed as expected. I decided to put it on a live account with real money and I was happy for the first two months. Then, while on vacation, the system was plugging away without care from me when I watched two trades it entered go south. I mean REALLY SOUTH! I was incredulous. The two bad trades nearly emptied my account. Not only did two bad trades negate the fifty plus positive trades, but it also took away most of my starting funds.

Expert Advisors

Expert advisors can work the same as Automated Traders, but they can also work like the GPS in your car. You can get (purchase, create, download for free, etc.) expert advisors that will provide guidance and allow you to make the trade or not as you see fit. Some advisors will use colorful indicators to let you know when it is good to buy or sell. Some expert advisors are simple (they use only one or two methods to determine when to trade) and others are much more complex (several methods and indicators are involved). Either way, you are still able to use your judgment on whether or not to get in the trade. This can be good or bad.

If you start to let your emotions govern your trading, it will be inconsistent and most likely negative. If you see patterns or have intuition regarding the currency pair since you have watched it for a while, you can increase your chances of positive trades. If you know that a news release is coming and you aren't sure how it will affect the market, you can wait on the trade.

Expert Advisers and Automated Traders have the potential to be good, but beware of lofty promises. I haven't tried too many and some can cost a substantial fee, but never use an automated trader on a live (real money) account without first doing plenty of research and trying them out on some demo accounts. Also, Expert advisors can be great tools if used properly and without emotion. Always learn the pros and cons of any advisor you use, if you choose to, and become familiar with the currency pair(s) you trade as it will help turn the odds in your favor.

Take/Profit and Stop/Loss

When you enter into a trade, either buying or selling (up or down), you can let the trade ride for as much time as you want. Some traders have a strategy based upon research and history which maintains they wait for a positive move of 20 pips (a pip is the unit of movement on Forex charts – most charts actually show movement to 1/10th of a pip) before exiting the trade. Another method of trading is to scalp, or take several very little gains, to turn a small profit (commission from your broker and spreads can become critical in this method).

Take/Profit

A Take/Profit is an option you can select on your trade that will automatically close out the trade once it gets to the profit point you set. Some systems, or trading strategies, will use indicators to let you know when to get out of a trade. A Take/Profit will not help for indicator based exits. Since I work a regular day job, I can’t sit and watch a trade through the entire duration of its movement or I would lose the day job! Anytime I research a strategy, I like to see how far the trade would usually go before turning around and I try to maximize my profits while minimizing my losses.

Stop/Loss

A Stop/Loss is the same as a Take/Profit, but for the losing side of a trade. **THIS IS THE MORE CRITICAL PORTION OF THE PAIR!!!** I hope the emphasis was clear. If you make nothing but profitable trades I would like you to contact me immediately. The point of trading is to make more profits than losses. I set a Stop/Loss on every trade now. I say now because it wasn't until I emptied several demo accounts and a couple live accounts (Ouch!) before I learned my lesson. Think of the Stop/Loss as insurance for your trading account. If the currency pair rapidly moves in the wrong direction, your Stop/Loss keep you from losing your account.

Research your strategy and determine how much you are willing to risk losing on a trade and then make sure you don't go past that for your Stop/Loss. Also, research your win/loss ratio to determine if you should change your existing strategy. You need to maximize your profit per trade and minimize your loss per trade. Again, from experience, I always set a Stop/Loss for every trade. Many traders do not set Stop/Loss points and some of them do well. I have lost significant money (both real and imaginary) from trades that were moving in my direction when some influential member of government decided to step up to the podium and mention something that causes the currency pair to rapidly go in the wrong direction. News releases can be good for your trade, but they can also be bad. If you want to see something move quickly, watch the USDJPY or EURUSD currency pair when the Fed Chairman changes the interest rate for banks.

Without a Stop/Loss in place, you can hope to exit when your indicators tell you, but market forces might drive the trade quickly in the wrong direction and you could lose significant amounts of money. I know I keep repeating this concept, but trust me when I say it needs to be repeated!

If you have a 55% win percentage and you have a Stop/Loss of ten pips versus a Take/Profit of five pips, you will go through your money very fast. If you have a 40% win percentage and you have a Stop/Loss of ten pips versus a Take/Profit of eighty pips, you will retire wealthy and soon! Good luck with that.

Take/Profit and Stop/Loss NOTICE!

Please understand this before using real money…the Take/Profit and Stop/Loss are tools and they are not perfect. When you enter or exit a trade you click a button on your trading platform and it must be processed. This usually takes place within one or two seconds. I say usually, because like other lessons I hope you learn through reading this book instead of through your own experience, I have had some trades that didn't close immediately.

When there is a news release or breaking news, the market can spook or react violently. Your trading platform will process the request to close a trade as quickly as possible; however, if the market moves ten pips in two seconds you could be out more money that planned. Granted this should be the case for closing a trade on the profitable side, but it seems to be skewed in the loss direction.

All of my trades use both the Take/Profit and Stop/Loss tools. I might be able to make more money without these in place, but the peace of mind and stability helps me maintain my sanity.

My System

So, now that you have some background, I will take some time to explain the system I use. Granted, the title of this chapter is “My System”, but the basic principle is a common trading system used by many people throughout the Forex world. The system is a pivot trading method. I have just researched and narrowed down the currency pair and set entry/exit points for fairly consistent gains. I will continue to research other pairs and timeframes and encourage you to do the same.

So, what is the pivot method you ask? Great question. As you open up a currency chart on a trading platform you will notice that the pair rises and falls throughout the day. There will be many peaks and valleys created during the weeks and months of currency fluctuation. One reason the currency pair might change directions (if it was moving in a general upwards direction and then turns to a general downwards direction) could be due to a resistance that the currency pair encountered (a relative ceiling or floor to the trade). This ceiling or floor that is indicated by the peak or valley is what the pivot trading method uses to make money. Take a look at the picture in Figure 3 to see the mountain range of a four hour currency chart.

Figure 3

When the currency pair breaks through the resistance (the ceiling or the floor) it generally continues traveling in that direction for a period of time. The concept is that you need to have a strong enough resistance or pivot that when it breaks through it will continue in the direction you want and that you can capture enough of that movement to make a profit.

There are some resistance indicators that help show strong and weak resistance values and there are some natural currency resistance values inherent in the currency pair. The resistance indicators are too complex for me as I am a very simple person. I like to fully understand what is going on if I am to wager my money. If you research and fully understand the “Fibonacci Retractment” indicator/tool, you may be able to utilize it to increase the profitable trade ratio of my system.

I also mentioned some inherent resistances in certain currency pairs. Think of large, round numbers and these can be natural resistances for currency pair movement. One pair that comes to mind, pretty much because it is the major pair I trade, the USDJPY (US Dollar/ Japanese Yen), likes to fluctuate around 100 (100 Yen for every 1 US

Dollar). There is a natural resistance at this 100 level. Each currency pair has its own set of natural resistances and depending on the strength of the market for that pair, it can make a considerable move when it breaks through the resistance.

I trade the USDJPY on the four hour chart. This means that each candle stick represents the movement of the currency pair over during a four hour period. The pivot system I use is not based upon the Fibonacci Retractment indicator or the natural resistances (although I will not disregard a natural resistance if it might enhance or interfere with my trade).

I use a four candlestick pivot method which means that a high peak must have four candles to the left and four candles to the right that are not as high as my pivot peak. In other words the peak must have nothing above it for sixteen hours prior and nothing above for sixteen hours after. Other people like to change their pivot method to three candles or five candles. Granted you could use any number of candles for the pivot strategy, but these are the most common. Using a three candle pivot method means that you might have more possible trades, but the pivot might not be as strong as a four or five candle system. Using a five candle system means that you won't trade as often, but the strength of the pivot should be better. This all depends on your preferences, but mine was chosen based upon research gathered over 1.5 years of USDJPY chart review along with real trade data.

Figure 4

Looking at Figure 4, you can see the candlestick marked with the arrow. The top of this candle is higher than at least four candle peaks to the left and four candle peaks to the right, so this makes it a pivot that I might use (I will detail why I say “might” later on). This would be a “buy” pivot. In other words, I would set the trade so that if the currency pair moves up through the pivot (the currency pair value goes above the highest value of my pivot candle), I am betting that the pair will continue to move to some determined profit.

Figure 5

As you probably already guessed, the opposite is true. If one candle is lower than the four to the left and the four to the right, then it is a “sell” pivot. See Figure 5 to review the look of this type of pivot.

Now, a true pivot method system is going to make the trade at the actual pivot value indicated. Let’s look at an example. If the pivot point shown in Figure 4 is 101.745 (candles one, two, three, and four are below 101.745) then I would set the trade for anything that moves above 101.745. Theoretically, I could set my trade to start once the currency pair reaches 101.746. This would be when the currency pair has broken through the pivot, but experience and research has led me to never take such a quick approach.

I don’t look at the pivot point as a thin line that once broken you are good to trade. I think of it as a pliable line that gives before it breaks. More like the old game of Red Rover. You could run and try to break through the line, but it might give and absorb the push. However, if you break through, then you win! The true pivot might not be a value that can go to three decimal places as indicated by movement. Maybe the pivot is 101.750, so the currency can reach all the way up to 101.749 before matching or breaking this pivot. You have to remember that the market moves and reacts constantly and the candle is subject to noise (slight movements that don't necessarily translate into direction movement). You want to start your trade as close to the pivot point as possible to maximize the gains, but get in far enough from the pivot to escape the noise.

Figure 6

Take a look at Figure 6. The red line is drawn at the pivot point for a "buy" trade. If you follow the red line to the right you can see where is hits a candle. This means that the candle broke through the pivot point which would activate a trade set to enter right at the pivot location. Well, the candle backtracks and might have been a loss. The momentum of the "hit" candle carried the currency pair up to and slightly beyond the pivot point indicated, but the currency pair wasn't really breaking through the resistance.

Due to this compensation for noise and momentum, I set my trades to enter two pips above a "buy" pivot and two pips below a "sell" pivot. So, for the example with the pivot at 101.745, I would set my trade to enter at 101.765 (one increment of movement on my currency charts is equal to 0.1 pip). Since the chart shown in Figures 4, 5, and 6 are of my currency chart that I trade, I can state that my trade did not enter too early and the result was profitable. I can't say that two pips is a good buffer for all currency pairs and time increments, but for the USDJPY chart with four hour increments, it works for me.

Based upon my research, as well as my vast and sometimes painful experience, I have come up with three current preset exit points for this strategy. Let me explain my research for a minute so you have a better understanding of what went into this method. I reviewed all four hour candles of the USDJPY chart for a year. After I reviewed the year's data, I had a rough idea of how far the USDJPY currency pair will move after breaking through a pivot before backtracking. I also had to figure out how far the currency pair might retract (go in the wrong direction) and still proceed through to become a profitable trade.

After the run for the currency pair was evaluated I started trading a demo account with my set parameters (I actually tried four currency pairs originally) and I documented the results for about six months. The historic data combined with the six months of demo trading caused me to reduce the currency pairs to two and again slightly adjust the exit points. I decided to risk my money and try a small, live account with both currency pairs and the set entry/exit points the data led me to conclude would be profitable.

I have said before that live trading isn't exactly the same as demo trading for a couple reasons. With that in mind I knew that I would need to track all of my live trades to further refine my system. I have since dropped the second currency pair and been left with the USDJPY pair. The spread for this pair is generally low and relatively stable. The movement is enough to allow for profitable trades using this system.

All that said to say this: I set three trades for a "buy" pivot and three trades for a "sell" pivot. The trades are set to enter at two pips above the four candle pivot point for a "buy" trade and two pips below the four candle pivot point for a "sell" trade. The first trade has exit parameters of a ten pip Take/Profit and a ten pip Stop/Loss. As a note, I generally like to trade larger Take/Profits than the Stop/Loss, but the research shows that I would lose more often. The second trade is for 15 pips in both directions (i.e. - 15 pip T/P and 15 pip S/L). The third trade is for 20 pips in both directions.

Constantly evaluate/track your trades and trade history to see if anything needs to be refined. I am constantly gathering data, one because I enjoy it (sad, I know), and two because it is my money out there and I want to make sure I don't let it down.

As an example of the data I gather, I can tell you that my current system has current win percentages of 70% for the 10 pip trade, 72% for the 15 pip trade, and 73% for the 20 pip trade. These percentages can change and I could start losing money tomorrow, but I wanted to give you information regarding what currently works for me.

I promise the next chapter is shorter, but equally important regarding my trading system – Exceptions To My System. The win percentage mentioned was not that high until I started looking for reasons <u>NOT</u> to trade. The win rate was still above 60%, but an extra 10% in profitable trades is not something I will ignore and you shouldn't either.

Exceptions to My System

Hopefully you fully understand my system now. At least, you should understand how to recognize pivot points and what parameters I use when setting trades. The problem that comes up is that I must look for reasons to NOT trade. I will give you a couple examples of when the pivot is in place, but due to other knowledge, I decide against entering a trade. These will be broken into some minor groups.

Days of the week

You can technically trade Sunday evening through Friday afternoon (based upon GMT). However, I do not place trades (or enter into trades) on Sunday or Friday based upon a couple observations (and some data!). You see, just because the Forex market closes on Friday, the world doesn't stop creating news that affects the currency pairs. You can look at many currency pairs on a trading chart and see that the location where the currency starts moving on Sunday isn't the same location as it stopped on Friday. This weekend movement can throw off a trade or enter into a trade incorrectly.

Let me give you a hypothetical example. Let's say that the USDJPY is trading at 104.000 on Friday afternoon when the markets close. You may have heard that the government likes to release bad news on Friday afternoon to minimize the news release. Well, in this hypothetical example, the US Government found that there was a computing error and instead of being in debt by 17 trillion, we are actually in debt by 19 trillion (I hope this is hypothetical!). When the Forex market opens on Sunday you can pretty well guess that the USDJPY currency pair will not open at 104.000. Probably not even at 103.500, or anywhere close.

If a Friday trade does not close, it will be in effect for the Sunday opening which means that all news through the weekend will affect the trade. My system is based upon momentum and trends. A weekend of news can throw the trend out completely. Meanwhile, the Sunday opening of the currency market is when traders are reacting to the weekend news releases and no trend has yet formed.

By the way, I mentioned data for this concern, so let me provide it. I never really traded much on Sundays, so there is less data to go on for Sunday trades, but here are the winning percentages for trades placed (and entered into) on each day:

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday
50%	73%	69%	91%	66%	57%

These percentages are based upon 189 trades entered.

Since I have stopped trading on Sundays and Fridays, the data may change some, but why risk my money when the data shows me it is more of a true gamble. By the way, I have tracked movement of the USDJPY currency pair without trading it on Sundays and Fridays and have noticed that the percentage is closer to 40-50% now. You can imagine that I really like Wednesdays and have even dabbled with the idea of increasing my risk based upon the percentages obtained, but I have seen where greed has a way of humbling me, so why risk it right now. If after another year of data tracking the numbers still bear this out, I will consider a weighted risk approach.

Pivots that don’t indicate trends

Below is a picture of a pivot that was formed due to a news release:

Figure 7

The bottom portion of candlestick that the arrow is pointing at was the result of some news releases. If you see the trend to the left of the indicated candle you can see that the currency pair was tracking upwards and created a peak or “buy” pivot, but during this four hour increment there was some news released that weakened the US Dollar against the Japanese Yen. This long “whisker” creates a “sell” pivot, but not based upon trends. The “sell” pivot is based solely on the news that was released and the reaction of the market. Once the immediate reaction ran its course, the currency pair created a new downward trend (we like trends).

Consequently, you can see that the “buy” pivot resulted in a breakout trade which was profitable (look at the pivot and the candles to the right to see where it broke through the pivot and was a good trade). Likewise, you can see where the “sell” pivot, the one formed due to the quick reaction of the market and was not due to a trend, would have entered and resulted in a loss.

Inherent resistances

I discussed inherent resistances earlier, but let me restate it here. Currency pairs have natural or inherent resistances where the value crosses a significant threshold. Just as you have regular anniversaries and birthdays, some hold more significance than others. Turning 40 is not the same as turning 39 or 41 (many never break through this resistance as they celebrate their 39th birthday many times before accepting that 40 mark). Celebrating 25 years of marriage is not the same as the celebration for 24 or 26. Why do you think that the item you want to buy is $999.99 and not $1000.00? A penny difference really is insignificant, but marketing shows that the one penny can make a really big difference in the sales and on your mind. The same concept is at work on currency movement.

Well, as I said earlier, the USDJPY pair likes to fluctuate around the 100 mark (1 US Dollar = 100 Japanese Yen). Sometimes the currency pair will just go through this 100.000 value as though it was any other place on the currency chart; however, sometimes this value can restrict further movement. I like to treat most whole numbers as slight resistances, and as the increment grows (every 5 or every 10 – 105.000 or 90.000) the strength of the resistance grows.

When my trade requires it to cross an inherent resistance, I prefer to hold off on setting my trade. I have seen where the resistance made no difference and it would have been a positive trade, but I have also seen where the resistance would have caused the trade to start, but close out negative. Why push my luck on something like this? As a matter of fact, while writing this chapter, I had an opportunity to set trades for the USDJPY that required it to move above 104.000 while starting below (pivot was at 103.956, so my entry would have been at 103.976). The trade would have also been on a Friday. Two of the trades would have been negative and one positive. Overall, these were good results of me deciding to not trade.

Recap

I have seen my win percentages grow from slightly over 50% to slightly over 70% just by utilizing these exceptions and learning how the currency pair likes to move. The longer you work with a currency pair, the more familiar you will become and the more knowledgeable your trades will be.

You will have plenty of pivot points to trade, but if you want to increase your percentages (and trading account) look for reasons to not trade.

Ongoing Research

As I said in the introduction of this book, I cannot assure you that using this system will result in profitable trades. All I can vouch for is my system's past performance and returns for my account. I will also say that my system does look exactly same today as when I started trading the pivot method. The concept is the same and I like to say that it has been refined.

As with many aspects in life, you need to re-evaluate this system on a regular basis to fine tune it to the current situation. Let me give you my real world examples that were used to refine my system. The concept is easy, but you must become familiar with the currency pairs and be open to everything the data shows.

When I first started trading the pivot method, after running extensive research on several time frames and currency pairs, I settled on trading four currency pairs: AUDJPY, GBPUSD, NZDJPY, and USDJPY. I decided to track every trade I made to see what works and what doesn't. I didn't want to rely only on the historic data.

I found out quickly, after about three months, that the NZDJPY pair that looked promising through historic data was not producing consistently positive results. Let me actually be more frank, it was losing me money for three months straight. As I noticed that it was losing money I started to reduce the amount of money risked in that currency pair, but I didn't want to jump the gun and drop a currency pair for a bad month or two. Even the stock market has good months and bad months. However, after further tracking, this currency pair had to be removed from my system.

The same concept that gradually caused the removal of the NZDJPY currency pair is what finally took out the AUDJPY and GBPUSD pairs. When I first started trading the AUDJPY and GBPUSD currency pairs the history told me to trade with a 10 pip Take/Profit and Stop/Loss, a 15 pip T/P and S/L, and a 20 pip T/P and S/L. The data being gathered from ongoing trading gradually reduced the AUDJPY to only the ten pip trades and the GBPUSD to only the 20 pip trades. Again however, I noticed that the system trades for the remainder of the AUDJPY and GBPUSD pairs was too close to 50% (actually 55% win rate) for me to feel comfortable risking my money. That would be the same as betting hard earned money on a coin flip. This was not how I wanted to work an investment account.

So, after removing three of my four initial currency pairs I was down, but not out. The USDJPY currency pair was performing well and I was happy with the results. Now, at the time, the history had indicated that I should be trading the 10 and 15 pip Take/Profit and Stop/Loss positions. Due to me watching the charts I was noticing that the currency pair was starting to have longer runs that might make the 20 pip option possible. After running my own tracking on live trades, but without real money (the real money was on the 10 and 15 pip trades, but I could follow the trend) I started to feel confident enough to allow some real money to enter the equation. I started adding the 20 pip trade to my system with the smallest lot size that my broker allowed with my account. As the results came in I tracked the win/loss percentages. The current win percentage for the 10 pip trade is 70%, for the 15 pip trade it is 72%, and for the 20 pip trade it is 73%.

As a result of my engineering background, I felt that I could delve down into the data a little further. Since the trading platform logs all trades made and their results, I realized that I could look at the win/loss percentages by the day the trade was made. I had to keep in mind that the trading platform is on GMT and not on Eastern Time Zone, but I was able to break down my trades by the day of the week and this allowed me to further tailor my system. I found that trades entered into on Sunday and Friday had a win percentage of less than 60%. Monday was up to 73%, Tuesday was holding strong at 69%, and Thursday was at 66%. Wednesday's data was what really caught my eye as it was at a 91% win rate. As stated in a previous chapter, I will continue to watch this trend and may start to set my trade risk based upon the day of the week.

I will continue to monitor my system and revise the system as needed to maintain profitable results. I may add some currency pairs back in depending on their new data, or I may increase the profit of each trade while reducing the loss. I am also going to be looking at expanding my trading into additional systems. I am looking at setting trades based upon news releases and seeing which currency pair travels the most while utilizing a trailing stop. I will never stop the research on this and other trading options and I encourage you to never stop researching as well.

Trading Resources

http://www.babypips.com/ - This site is an excellent resource for learning about Forex and discussing various Forex related topics with others. I can't recommend this site enough, especially for beginners to the Forex world.

http://www.forexfactory.com/ - This site is great for news related to each currency as well as a great location for additional blogs with Forex experts and novices. The calendar feature is top notch and you can see how large the impact may be for the news released. I plan on using this site extensively for my news trading system.

https://www.finfx.fi/?q=en – This is the website for the broker I currently use. I have used others in the past and will mention a couple great options, but I am not here to push one broker over another.

http://www.fxstreet.com/ - This site is another location for news and analysis as well as many other aspects of Forex that can be utilized to your benefit.

http://www.dailyfx.com/ - As though you don't have enough news and analysis sites, this site is another good resource of current Forex information.

The Forex Trading Manual: The Rules-Based Approach to Making Money Trading Currencies by Javier H. Paz. – This book is a great introduction into the world of Forex. In it Mr. Paz discusses many of the mistakes I made in my first four years of Forex trading. If you have the ability to learn from another's mistakes, I suggest you read this book. If you are like me and stubborn, you can make your own mistakes and write about them later!