
Jude Leibin

FOREX TRADING STRATEGY TO DAY TRADE FOR A LIVING

A Simple Trading Strategy To Make
Money Day Trading The Forex
Market.

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**A SIMPLE TRADING STRATEGY TO
MAKE MONEY DAY TRADING THE FOREX
MARKET**

By Jode Lebin

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One of the simplest and most effective trading strategy in the world, is simply trading price action signals. In this e-book, you will learn how to trade engulfing candles using support and resistance price levels. The strategy discussed here is easy to implement and very powerful. All you have to do is be patient and disciplined, follow the rules and wait for the opportunities to show up.

Many traders are struggling to make a living trading the forex market, all you have to do is learn a simple strategy and stick to it and don't jump from one strategy to another just because it gave you one or two losing trades. You should know by now that there is no strategy in the world that works all the time. So keep learning, be patient and most importantly stay disciplined.

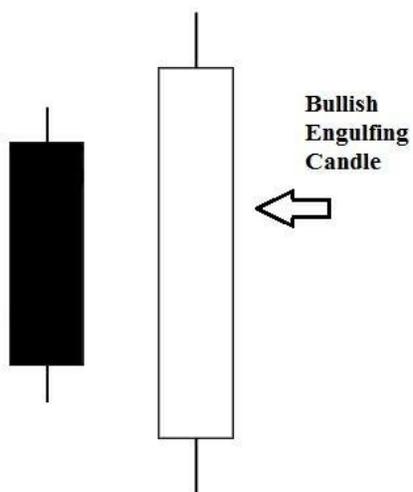
Don't over-complicate the process of analyzing the charts to find opportunities. The market will always generate trading opportunities for you, you just have to be ready and well-prepared to identify the signals and trade them.

Chapter 2 - Engulfing Candlestick Patterns

There are two types of engulfing candles, a bullish engulfing candle and a bearish engulfing candle. In this chapter, you will learn how to identify engulfing candles on the chart.

Bullish Engulfing Candle

A bullish engulfing candle is a bullish (up) candle that the body completely engulfs or envelops the prior bearish (down) candle. Here's what a bullish engulfing candle looks like on the chart:

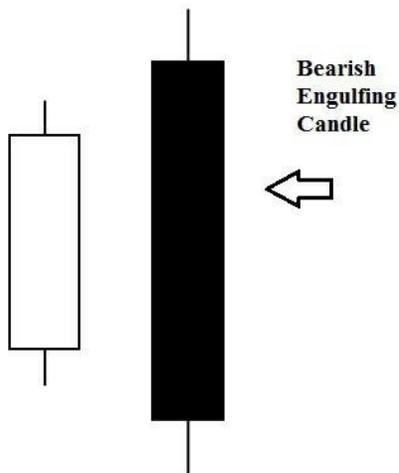


Here's an example of a bullish engulfing candle:



Bearish Engulfing Candle

A bearish engulfing candle is a bearish (down) candle that the body envelops completely the body of the previous bullish candle (up). Here's what a bearish engulfing candle looks like:



Here's an example of a bearish engulfing candle:



In the chart below we can see that bullish/bearish engulfing candles are strong trading signals, once they are formed, market seems to move in a strong fashion either to the upside or to the downside based on the signal of the engulfing candles:



Chapter 3 - Support and Resistance Levels

Support and Resistance is one of the most important and fundamental parts of technical analysis. There are many different ways to identify these levels and trade them. Support and Resistance levels can be used as turning points, areas of congestion or psychological levels (round numbers).

The higher the time frame, the more relevant and reliable the levels become. Finding the most important level can take many hours of practice. The fact that these levels flip roles between support and resistance can be used to determine the range of a market, trade reversals, bounces or breakouts.

Each time the price makes a swing high or low, the resulting peaks and troughs can be marked as resistance and support zones, respectively.

In this chapter you will learn how to identify and draw support and resistance levels.

Support Level

Support is the price level at which demand is thought to be strong enough to prevent the price from declining further. As the price declines towards support level and gets cheaper, buyers become more interested and price bounces back up. By the time reaches the support level, it is believed that demand will overcome supply and prevent the price from falling below that support level.

In other words, think of support level like a barrier or a floor that stops price from moving down. When we look at a price chart, we tend to see price moving down, pauses and retraces back up. This is a support level or support zone.

Here's an example of a support level:



As you can see, price reverses back up every time it touches the support level and it was unable to break through it and continue its direction to the downside.

One thing to keep in mind is that support levels do not always hold and a break below support signals that the bears have won out over the bulls. When support breaks, new lows signal that sellers have reduced their expectations and are willing to sell at even lower prices.

Once the support level is broken, another support level will have to be established at a lower price level.

Resistance Level

Like support levels, resistance levels are price levels at which selling is thought to be strong enough to prevent the price from rising further. The price goes up then retraces back down unable to break through the resistance level. By the time the price reaches the resistance level, supply will overcome demand and prevent the price from rising above resistance.

Here's an example of resistance level:



Price keeps going up and touching the resistance level a few times before it breaks out and continues to the upside. Resistance levels don't always hold and at some point a break above resistance signals that the bulls have won out over the bears. A break above resistance shows new buyers willing to buy at even higher prices.

Once resistance is broken, another resistance level will have to be established at a higher level.

Ranges

Ranges play an important role in determining support and resistance as turning points or as continuation patterns. When price breaks out of the trading range:

- above: more demand than supply,
- below: more supply than demand,

In the chart below we can see that price is moving between support and resistance levels:



Price ranges between 1.04537 and 1.14606. These are support and resistance levels respectively. In a range, price seems to move horizontally rather than directionally.

Large ranges indicate high volatility, which refers to the amount of uncertainty or risk related to the size of changes in the pair's price. A higher volatility means that a pair price can potentially be spread out over a larger range of prices.

Small ranges indicate low volatility. A lower volatility means that a pair's price can potentially be spread out over a smaller range of prices.

As retail traders, we need volatility because it provides high probability trading opportunities to profit from.

How to Draw Support and Resistance

Support and resistance are very powerful technical tools and drawing them correctly on your charts is a key skill for any trader to master. Because technical analysis is not an exact science, it is useful to think of support and resistance levels as zones instead of single horizontal lines.

However, many traders out there make many mistakes when it comes to identifying and drawing these levels.

The Forex market is very dynamic and volatile and fundamental news releases can dramatically affect how price moves on the chart.

The chart below shows you how we use zones instead of just lines:



The zones now include all major turning points and we can easily spot areas where support becomes resistance and vice-versa. When price breaks below a support zone and continues down to reach a new support zone, the broken support zone becomes resistance. Same thing happens when price breaks resistance and continues to the upside to a new resistance zone, the broken resistance zone becomes support.

If this is new to you, just pull up price charts and start practicing drawing zones instead of lines. With practice, once you open a chart your eyes will easily spot support and resistance zones with no effort.

Here's the steps to draw support and resistance levels:

1. Start with higher time frames: weekly or daily time frames. This is important to get the bigger picture first and identify major turning points and work your way down to smaller time frames.
2. Identify all swing highs and lows and draw a rectangle connecting most of these swing highs and lows you just identified. You might need to scroll left to see if the rectangle you drawn is confirmed by past swing highs and lows.
3. Repeat the process.

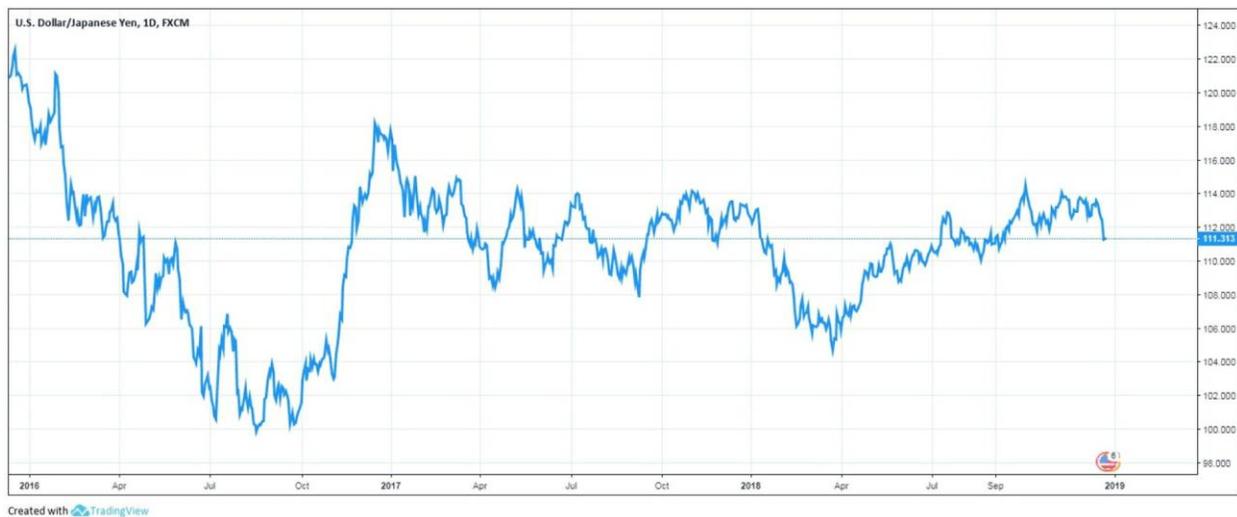
These are some tips to help you draw support and resistance zones correctly:

- You can draw them on any time frame you want to trade.

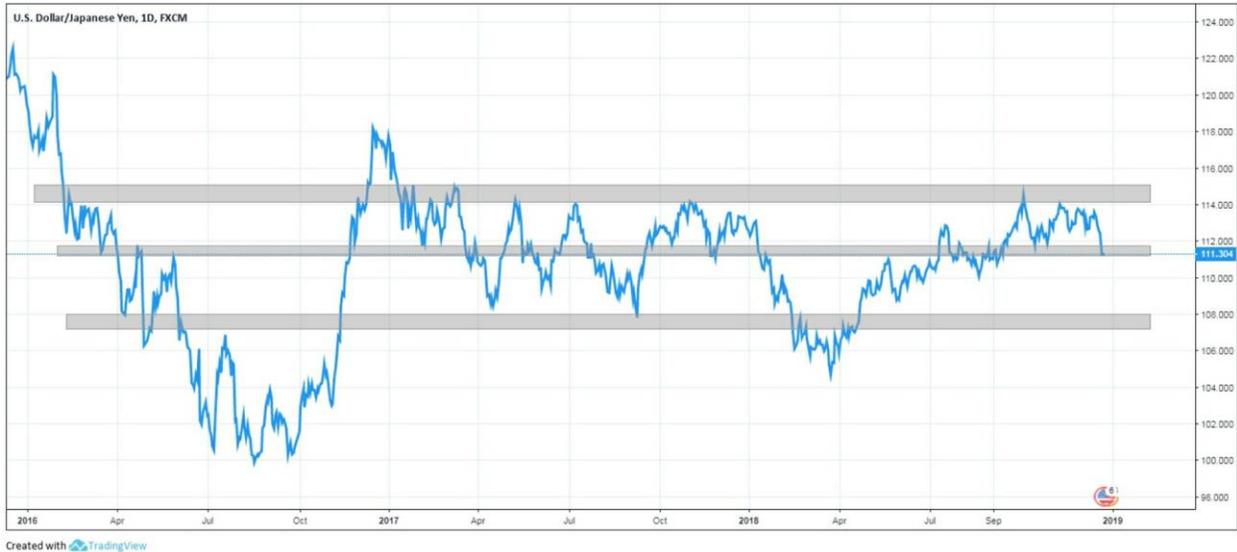
- When drawing your support and resistance zones keep them narrow as possible.
- Zones are not required to encompass every single trough or peak, just look for major levels where price has shown repeated bounces.
- If you are having a hard time identifying support and resistance levels using candlestick charts you can switch to a line graph instead.

Examples

In this example, we use a line graph to identify the peaks and the troughs. Next we connect them using a drawing tool to draw a rectangle.



Notice that we draw the rectangle in an area where we have a large number of peaks (for resistance) and troughs (for support).

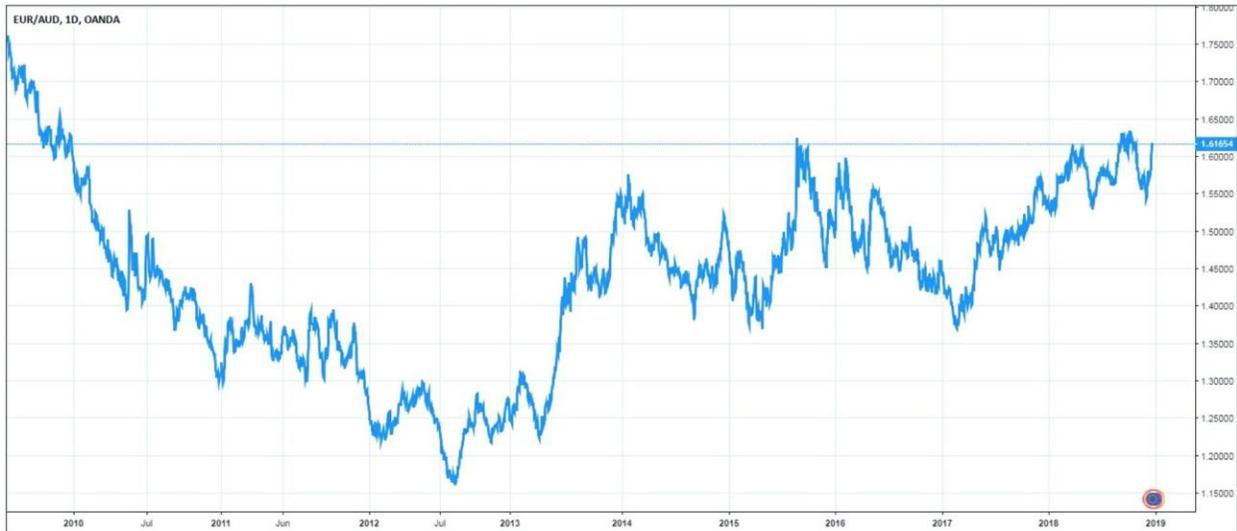


We don't have to draw every single support and resistance level, instead we focus on the levels around current price. The goal here is to identify the next potential support or resistance level where price could go. We need to keep the chart clean and clear as possible to avoid clouding our judgment.

After identifying and drawing support and resistance zones, we can switch back to candlestick chart:



Let's look at another example, here's EUR/AUD on a daily chart:



Created with TradingView

Like we did in the previous example, we start with line graph to make it easier for us to identify major support and resistance zones. It's okay if your zone doesn't reach as many peaks and troughs that is why we use zones instead of lines.



Created with TradingView

Once we are done drawing, we switch back to the candlestick chart:



The Psychology of Support and Resistance Zones

In any given financial market, there are typically three types of participants at any price level. The first type is traders who are buying and waiting for price to go up, the second type is traders selling and hoping price will go down, and finally the third type is traders who are not sure what to do.

As the price goes up from a support level, buyers are satisfied and maybe considering increasing their position size at pullbacks. The sellers in this case, are starting to lose hope as price continues to rise and some of them start cutting their losses. The traders who did not know what to do they may be ready to enter the market and go long once the price retraces back down to a support level.

A large number of traders may be willing to buy at this support level, adding to its strength as an area of support. If all these participants do buy at this price level, the price will likely rebound from the support once again to the upside.

However, if price starts falling and breaks the support level, traders will quickly realize that the support level won't hold and traders will wait for price to retrace back up to new resistance to cut their losses and exit the market. Sellers are satisfied with their positions and are more than willing to increase their position sizes when price pulls-back.

Finally, those traders that did not know what to do see now a good opportunity to jump in and short the market as price continues to go down.

Again, a large number of traders may be willing to short at this price level. This same behavior can be witnessed over and over again.

Chapter 4 - The Trading Strategy

In this chapter, you will learn the trading strategy, which is based on support and resistance zones and the engulfing candle patterns. The engulfing candles are simply an entry technique to place our trades in the market. Their trading signals are strong and extremely reliable, this is why we won't be using any indicator for this strategy.

Step 1 – Choosing your Time Frame

These are the time frames that we recommend using: Monthly, Weekly, Daily, and 4H time frames because the charts are clean and support and resistance levels tend to be strong and reliable.

You can choose smaller time frames too but keep in mind that smaller time frames tend to have background noises and could affect your trading results.

Step 2 – Drawing Support and Resistance Zones on Weekly/Daily Chart

Start by looking at higher time frames (Weekly and Daily) to identify major turning points. Start by drawing your support and resistance zones around current price.

Then move to lower time frames (Daily/ 4H or 1H) to look for engulfing candles.

If you have trouble finding these zones switch to a line graph to make it easier for you to identify support and resistance levels.

Step 3 – Identify Engulfing Candles

After drawing major support and resistance levels, look for bullish or bearish engulfing candles forming at these levels.

The key point here to remember is that we need engulfing candles forming at or near support and resistance levels. Any engulfing candle far from these levels we tend to ignore it. We need to stick the odds in our favor by

choosing only high probability trading setups around or at support and resistance levels.

As we said earlier, support and resistance are powerful price levels and price tends to be attracted to them like a magnet. When engulfing candles appear at these levels, the signal is amplified and thus increasing the success of the trade.

Step 4 – Placing your Trade

Once you have identified a trading opportunity, you need to place your entry and your stop loss. There are two options you can choose from to place your entry.

Option 1:

Open a position right after an engulfing candle (bullish or bearish) is formed as a market order.

Option 2:

Place a limit order just below the low (in bearish engulfing) or the high (in bullish engulfing) of the candle.

Your stop loss is above the high (below the low) or the previous candle plus few pips to avoid getting hit by market movements.

Here's an example:

In the chart below we have a bullish engulfing candle, we place our limit order at the high of the engulfing candle and our stop just below the low the either the engulfing or the previous candle. Price hit our entry and moved up.



Now we have a bearish engulfing candle and our entry is below the low of the engulfing candle and the stop is above the high of the engulfing candle.



Step 5 – Managing your Trades

To exit a winning trade, there are three strategies to choose from:

1. Using Fibonacci levels to exit a winning trade when price reaches 50% Fibonacci level.

The technique is simple, you just wait for the price to hit your entry first, then look for recent high (for a long position) to draw your Fibonacci retracement tool from that recent high to the entry level where you entered the market to get the 50% Fibonacci level. This is your exit or you can move your stop loss to this level so that you protect your winning trades.



2. Decide to exit a trade after a fixed number of pips or using a trailing stop.
3. Closing a position when an opposing engulfing candle is formed.



Trading Examples

GBPNZD on Weekly chart

In this example, we have a bearish engulfing candle forming at the resistance zone on weekly chart. After the signal is confirmed, we place our entry below the bearish engulfing candle and our stop above the high of the candle. If your stop loss is too large, you could place it at the body of the candle excluding the tails.

We exit the trade when an opposing engulfing candle is formed.



EURCAD on 1H chart

Same as the previous example, here we have a trading setup on the one hour chart. We have a bearish engulfing candle formed at the resistance zone. Our entry is below the engulfing candle and our target is when an opposing engulfing candle is formed.



AUDUSD on 4H chart

In this example we have a bullish engulfing candle formed at the support zone. Price has retraced back to test the support zone before rallying up giving us a profit of 119 pips.



Chapter 5 - How to use Kelly Criterion in Forex

The Kelly Criterion is considered the most efficient risk/money management strategy to maximize your long-term growth of capital and self-assess your trading performance.

Use the Kelly Criterion to improve your results and grow your trading account.

What is The Kelly Criterion

The Kelly criterion is a mathematical formula developed by John Larry Kelly. The formula is currently used by gamblers and investors to determine what percentage of their bankroll/capital should be used in each bet/trade to maximize long-term growth of their capital.

The formula is:

Kelly % = $W - [(1-W)/R]$ Where:

W is your winning probability factor/ probability a trade will be a winning trade,

R= W/L ratio represents your ability to manage risk, best value is close or equal to 2,

(1-W) is your losing probability factor,

There are two key components to the formula for the Kelly criterion: the winning probability factor (W) and the win/loss ratio (R). The winning probability is the probability a trade will have a positive return. The win/loss ratio is equal to the total positive trade amounts divided by the total negative trading amounts.

The result of the formula will tell traders what percentage of their total capital that they should apply to each trade.

How to Allocate your Trading Capital

Let's assume you find a trading opportunity and you are about to open the trade, but you are not sure what the optimal lot size to use. So you don't want to risk too much in case the market goes against you, but also you don't want to risk too little either.

In this chapter, we will explain exactly what percentage of your capital is optimal to risk on a given trade.

Let's play a game; you bet \$1 on a coin flip. Here's the rules:

On heads I pay you \$2 and on tails you pay me \$1, now let's see it from a mathematical perspective. We need to calculate the expected value $E(x)$ of this game: The formula says: $E(x) = n * p$

n here is the amount you win or lose in dollar,

p is the probability of occurrence,

So when you toss a coin you have two outcomes, either a head or a tail thus the probability is $\frac{1}{2}$ for getting a head and $\frac{1}{2}$ for getting a tail.

Let's calculate the expected value:

$$E(x) = (\$2 * 1/2) - (\$1 * 1/2) = \$0.50$$

The result is positive showing it is a profitable opportunity. In the long-run if we average out all the tosses, we will be earning an average of 50cents per coin toss.

Let's assume that you get a profitable trading strategy that has risk-to-reward ratio of 1:2, 1 for your loss and 2x for your profit. This sounds like a great trading strategy!!!

Sadly, not.

Even though it looks great in terms of winning to losing ratio, but in fact it is not a good strategy...let me explain myself.

Let's say you deposit \$1000 in your trading account and decided to trade using the above strategy you found giving you a 1:2 ratio. And because it is such a great strategy you decided to allocate 75% of your capital to highly probable trading setups. Let's trade:

First trade:

- You allocate 75% * \$1000 = \$750
- Price hits your target – you just earned \$1500 - Your balance is now \$2500

Second trade:

- You allocate 75% * \$2500 = \$1875
- Price hits your stop loss – you just lost \$1875 - Your balance is now \$625

You see now that after only two trades you are already in the negative. And since winning and losing come in with roughly the same frequency, in the long-run this pattern will continue and you will lose all your capital. Numbers don't lie!!

So what went wrong? No, your strategy is fine, the problem is you overallocating capital. That is why we introduced the Kelly Criterion so we can learn how to allocate capital without over-betting.

Let's allocate different percentage (different from 75%) and see what happens to your account balance:

10% your balance at the end = \$1080

20% = \$1120

30% = \$1120

40% = \$1080

50% = \$1000 (Break-even)

60% = \$880

70% = \$720

80% = \$520

90% = \$280

100% = \$0

Between 10-30% return seems to increase from \$1080-\$1120 and then above 40% the return drops off and goes into negative. As a conclusion from this little experiment, there is a maximum somewhere between 20% and 30% that yields good and steady returns in the long run.

This is where Kelly Criterion comes in handy:

$$K\% = W - [(1-W)/R]$$

This formula determines the optimal percentage of your trading account that you can allocate to get the most profitable outcome. Let's calculate the Kelly Criterion for the example above:

R is the 1:2 risk-to-reward ratio we used,

W is our probability of winning or losing a trade (W=0.5),

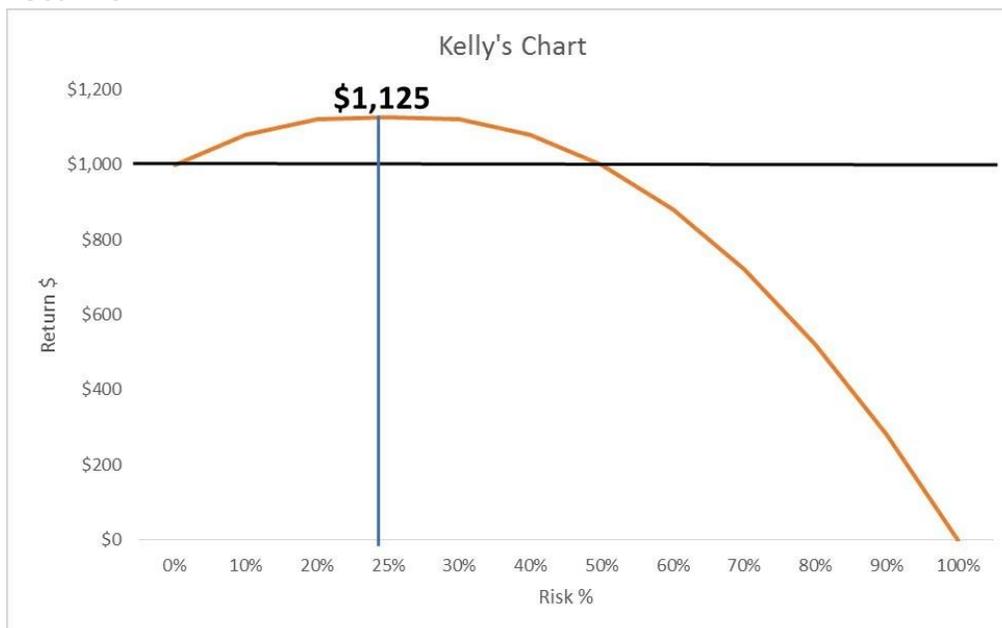
$$K\% = 0.5 - [(1-0.5)/2] = 0.25 \text{ 25\%}$$

= \$1125

Therefore, the best outcome is to allocate 25% of your account on every trade you place.

The chart below shows the relationship between balance growth and the percentage of risk allocated. Return increases as risk increases up to 25%, then return drops off and becomes zero (margin call).

Remember that whatever strategy you are using to trade the markets, always keep in mind that increasing risk doesn't go hand in hand with high returns.



As long as you have calculated your Kelly correctly, you can draw Kelly's chart on Excel using your own data from your strategy and understand how your investment will behave in the long-term perspective depending on your selected risk exposure.

If your portfolio is combining swing and day/intraday positions, you should keep your daily Kelly % separate from your swing Kelly %.

Chapter 6 - How to Measure Volatility in Forex

What is Volatility

Volatility is a statistical measure of the dispersion of return for a given asset or security. It refers to the amount of uncertainty or risk related to the size of changes in an asset's value.

A higher volatility means that an asset's value can potentially be spread out over a larger range of values. This means that the price of the asset can change dramatically over a short time period in either direction.

A lower volatility means that an asset's value does not fluctuate dramatically, and tends to be more steady.

Why is it important in Forex?

Calculating the Average True Range (ATR) for a currency pair or any asset is important from a volatility perspective, because it tells us not only the opportunities available within in the market, but it also tells us whether volatility has been increasing or decreasing over a certain period of time.

In other words, it tells us whether short term opportunities may be about to occur, clues as to how we should be seeking to manage our risk and whether we should be short term trading versus long term trading.

Remember that the ATR calculation is a historic volatility calculation, because we are using historical data to gauge clues on how the market would move in the nearest future.

As retail traders, we want to go where the money is and change our trading style according to the market conditions. If there are no short term opportunities (low volatility), we choose a long term trading style (swing and position trading). This happens 80% of the time. If the volatility rises, we go from long term trading to short term trading style (intraday/ day trading) to profit from short term opportunities.

Another important thing about ATR is that it helps us calculating our stop loss and target based on the values of ATR%. This is important because once you know the average daily range of an asset, you can put your stop loss order a few pips away from it so you don't get stop out.

Calculate your ATR%

The Average True Range (ATR) of an asset is a historical volatility indicator that calculates the average of a number of previous True Range Values.

$$ATR_x = \frac{(TR_t + \dots + TR_{t-x})}{Open_{t-x}}$$

The True Range (TR) of an asset over a certain period (t) can be defined as follows:

$$TR_t = (High\ Price - Low\ Price)_t$$

The ATR and TR values allow us to understand historical volatilities; and when we compare these values across various periods we can gauge how volatility of an asset has changed with time.

By understanding ATR as a historical volatility indicator we can use it to appreciate the trading opportunities inherent in the asset and the risk that come with it.

In this example we calculate rolling one day ATRs for the EURUSD, and compare averages of these rolling ATRs over different periods in time.

Step One – Obtaining the Historical Data

To begin with, we need to download EURUSD data set:

- Go to <https://www.investing.com/currencies/streaming-forex-rates-majors> - Select EUR/USD pair from the list.
- This will direct you to the summary page for the EUR/USD Euro US Dollar.
- Now navigate to the historical data page by clicking on “historical data” under General:

EUR/USD - Euro US Dollar

Real-time FX

Add to Portfolio

Create Alert

↑ 1.1410 +0.0026 (+0.23%)

09:35:07 - Real-time Data. (Disclaimer)

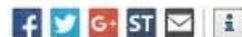
Type: Currency
Group: Major
Base: Euro
Second: US Dollar

Prev. Close: 1.1384 | Bid/Ask: 1.1409 / 1.1410 | Day's Range: 1.1364 - 1.1433

General | Chart | News & Analysis | Technical | Forum | Brokers

Overview | Forward Rates | Historical Data | Related Instruments | Currency Converter | Contracts | Options

EUR/USD Overview



On the historical data page we can choose the timeframe in which we want to extract prices from, as well as the starting and ending dates. In this example we will use daily data from the 3rd of January 2000 to the 21st of November 2018.

- Change the start date to “3 Jan 2000”- Change the end date to “21 Nov 2018” - Select “daily” as the time frame.
- Click “Download Data” to download the spreadsheet.

Step Two – Arranging the Data in Microsoft Excel

The screenshot below shows what the excel spreadsheet should look like when opened:

| | A | B | C | D | E | F | G |
|----|-----------|--------|--------|--------|--------|----------|---|
| 1 | Date | Price | Open | High | Low | Change % | |
| 2 | 22-Nov-18 | 1.1409 | 1.1389 | 1.1433 | 1.1385 | 0.18% | |
| 3 | 21-Nov-18 | 1.1389 | 1.1372 | 1.1425 | 1.1366 | 0.16% | |
| 4 | 20-Nov-18 | 1.1371 | 1.1453 | 1.1473 | 1.1357 | -0.72% | |
| 5 | 19-Nov-18 | 1.1453 | 1.1403 | 1.1467 | 1.1393 | 0.29% | |
| 6 | 16-Nov-18 | 1.142 | 1.133 | 1.1423 | 1.132 | 0.81% | |
| 7 | 15-Nov-18 | 1.1328 | 1.1309 | 1.1364 | 1.1271 | 0.16% | |
| 8 | 14-Nov-18 | 1.131 | 1.129 | 1.1349 | 1.1262 | 0.17% | |
| 9 | 13-Nov-18 | 1.1291 | 1.1219 | 1.1296 | 1.1216 | 0.65% | |
| 10 | 12-Nov-18 | 1.1218 | 1.1331 | 1.1333 | 1.1214 | -1.04% | |
| 11 | 9-Nov-18 | 1.1336 | 1.1364 | 1.1371 | 1.1315 | -0.24% | |
| 12 | 8-Nov-18 | 1.1363 | 1.1425 | 1.1448 | 1.1352 | -0.55% | |

If the “Date” column is filled with # symbols as in the screenshot, the column width needs to be adjusted so we can see the values in full. Click on column A and navigate to Home/Format/AutoFit Column Width.

For Average True Range analysis, we only need data for the High, Low and Open prices of each day. Delete column B and F.

| | A | B | C | D | E |
|----|-----------|--------|--------|--------|---|
| 1 | Date | Open | High | Low | |
| 2 | 22-Nov-18 | 1.1389 | 1.1433 | 1.1385 | |
| 3 | 21-Nov-18 | 1.1372 | 1.1425 | 1.1366 | |
| 4 | 20-Nov-18 | 1.1453 | 1.1473 | 1.1357 | |
| 5 | 19-Nov-18 | 1.1403 | 1.1467 | 1.1393 | |
| 6 | 16-Nov-18 | 1.133 | 1.1423 | 1.132 | |
| 7 | 15-Nov-18 | 1.1309 | 1.1364 | 1.1271 | |
| 8 | 14-Nov-18 | 1.129 | 1.1349 | 1.1262 | |
| 9 | 13-Nov-18 | 1.1219 | 1.1296 | 1.1216 | |
| 10 | 12-Nov-18 | 1.1331 | 1.1333 | 1.1214 | |
| 11 | 9-Nov-18 | 1.1364 | 1.1371 | 1.1315 | |
| 12 | 8-Nov-18 | 1.1425 | 1.1448 | 1.1352 | |
| 13 | 7-Nov-18 | 1.1427 | 1.1502 | 1.1395 | |

Step Three – Calculating the True Range and Average True Range

In this step, we will create two columns with TR and ATR data respectively. The ATR will be calculated on a rolling one-day basis.

We will begin with the True Range column:

- Select cell E1 and type "True Range" to head the column and Press Enter.

The next stage involves calculating the true range:

- Select cell E2 and type "=C2-D2" and Press Enter.

| | A | B | C | D | E | F |
|---|-----------|--------|--------|--------|------------|---|
| 1 | Date | Open | High | Low | True Range | |
| 2 | 22-Nov-18 | 1.1389 | 1.1433 | 1.1385 | =C2-D2 | |
| 3 | 21-Nov-18 | 1.1372 | 1.1425 | 1.1366 | | |
| 4 | 20-Nov-18 | 1.1453 | 1.1473 | 1.1357 | | |
| 5 | 19-Nov-18 | 1.1403 | 1.1467 | 1.1393 | | |
| 6 | 16-Nov-18 | 1.133 | 1.1423 | 1.132 | | |
| 7 | 15-Nov-18 | 1.1309 | 1.1364 | 1.1271 | | |
| 8 | 14-Nov-18 | 1.129 | 1.1349 | 1.1262 | | |
| 9 | 13-Nov-18 | 1.1219 | 1.1296 | 1.1216 | | |

Next, we copy down the formula we just applied to cell E2, down to E4930 (the earliest date in our dataset).

| | | | | | |
|------|-----------|--------|--------|--------|--------|
| 4923 | 12-Jan-00 | 1.0322 | 1.037 | 1.0258 | 0.0112 |
| 4924 | 11-Jan-00 | 1.0259 | 1.0342 | 1.0241 | 0.0101 |
| 4925 | 10-Jan-00 | 1.0288 | 1.0303 | 1.0213 | 0.009 |
| 4926 | 7-Jan-00 | 1.0327 | 1.0333 | 1.0252 | 0.0081 |
| 4927 | 6-Jan-00 | 1.0325 | 1.0419 | 1.0275 | 0.0144 |
| 4928 | 5-Jan-00 | 1.0295 | 1.0404 | 1.0282 | 0.0122 |
| 4929 | 4-Jan-00 | 1.0244 | 1.0347 | 1.0213 | 0.0134 |
| 4930 | 3-Jan-00 | 1.0052 | 1.0282 | 1.005 | 0.0232 |
| 4931 | | | | | |

Now we have calculated the TR of each of our trading days, we move on to calculating the rolling one-day ATR at each period (day):

- Select cell F1 and type "ATR", heading a column that will contain our oneday rolling ATR and Press Enter.

- Select cell F2 and type "((Sum(E2:E3)/2)/B3" and Press Enter.

| | A | B | C | D | E | F | G | H |
|---|-----------|--------|--------|--------|------------|-------------------------------|---|---|
| 1 | Date | Open | High | Low | True Range | ATR | | |
| 2 | 22-Nov-18 | 1.1389 | 1.1433 | 1.1385 | 0.0048 | $=((\text{Sum}(E2:E3)/2)/B3)$ | | |
| 3 | 21-Nov-18 | 1.1372 | 1.1425 | 1.1366 | 0.0059 | | | |
| 4 | 20-Nov-18 | 1.1453 | 1.1473 | 1.1357 | 0.0116 | | | |
| 5 | 19-Nov-18 | 1.1403 | 1.1467 | 1.1393 | 0.0074 | | | |
| 6 | 16-Nov-18 | 1.133 | 1.1423 | 1.132 | 0.0103 | | | |
| 7 | 15-Nov-18 | 1.1309 | 1.1364 | 1.1271 | 0.0093 | | | |
| 8 | 14-Nov-18 | 1.129 | 1.1349 | 1.1262 | 0.0087 | | | |
| 9 | 13-Nov-18 | 1.1219 | 1.1296 | 1.1216 | 0.008 | | | |

- We are now going to copy this formula down to the entire F column.
- Change the numbers in Column F to display itself in percentage format with 2 decimal places and Press OK.

| | A | B | C | D | E | F | G |
|----|-----------|--------|--------|--------|------------|-------|---|
| 1 | Date | Open | High | Low | True Range | ATR | |
| 2 | 22-Nov-18 | 1.1389 | 1.1433 | 1.1385 | 0.0048 | 0.47% | |
| 3 | 21-Nov-18 | 1.1372 | 1.1425 | 1.1366 | 0.0059 | 0.76% | |
| 4 | 20-Nov-18 | 1.1453 | 1.1473 | 1.1357 | 0.0116 | 0.83% | |
| 5 | 19-Nov-18 | 1.1403 | 1.1467 | 1.1393 | 0.0074 | 0.78% | |
| 6 | 16-Nov-18 | 1.133 | 1.1423 | 1.132 | 0.0103 | 0.87% | |
| 7 | 15-Nov-18 | 1.1309 | 1.1364 | 1.1271 | 0.0093 | 0.80% | |
| 8 | 14-Nov-18 | 1.129 | 1.1349 | 1.1262 | 0.0087 | 0.74% | |
| 9 | 13-Nov-18 | 1.1219 | 1.1296 | 1.1216 | 0.008 | 0.88% | |
| 10 | 12-Nov-18 | 1.1331 | 1.1333 | 1.1214 | 0.0119 | 0.77% | |
| 11 | 9-Nov-18 | 1.1364 | 1.1371 | 1.1315 | 0.0056 | 0.67% | |
| 12 | 8-Nov-18 | 1.1425 | 1.1448 | 1.1352 | 0.0096 | 0.89% | |
| 13 | 7-Nov-18 | 1.1427 | 1.1502 | 1.1395 | 0.0107 | 0.69% | |

This changes all the ATR values we have just calculated to display themselves in terms of percentages. Notice how cell F4930 has an error “#DIV/0!”

This is because the ATR calculation within this cell relies on data from the previous trading day, which we do not have. Before we proceed, delete the contents of this cell.

To find the average ATR over these periods take the following steps:

- Select cell I4 and type “=average(F2:F6)”.
- Select cell J4 and type “=average(F2:F21)”.
- Select cell K4 and type “=average(F2:F61)”.
- Select cell L4 and type “=average(F2:F251)”.
- Select cell M4 and type “=average(F2:F751)”.
- Select cell N4 and type “=average(F2:F1251)”.
- Select cell O4 and type “=average(F2:F2501)”.
- Select cell P4 and type “=average(F2:F5001)”.
- Select cell Q4 and type “=average(F2:F12501)”.

| | G | H | I | J | K | L | M | N | O | P | Q | R |
|---|---|-------|-------|-------|-------|-------|-------|-------|-------|-------|---------------------|---|
| 1 | | | | | | | | | | | | |
| 2 | | Years | | | | 1 | 3 | 5 | 10 | 20 | 50 | |
| 3 | | Days | 5 | 20 | 60 | 250 | 750 | 1250 | 2500 | 5000 | 12500 | |
| 4 | | ATR% | 0.74% | 0.72% | 0.72% | 0.73% | 0.76% | 0.81% | 0.89% | 0.95% | =average(F2:F12501) | |
| 5 | | | | | | | | | | | | |
| 6 | | | | | | | | | | | | |

This gives us an idea of the changes in volatility of the EUR/USD pair. We can see that over the last 50 years there has been a general tendency towards less and less daily volatility. This reiterates the fact that day trading opportunities are typically minimal, and we must wait for periods of higher volatility to take advantage of day trading. Most of the time, we require longer periods of time to see enough price movement to make our trades worthwhile. Volatility indicators like ATR help us identify when we adopt a long term trading style and when we switch to shorter term trading, such as day and intra-day trading strategies.

You can do this to any asset and for any time frame you want. You will notice that when you increase the time frame of the asset, the ATR% increase and thus making more profit.

Calculating your Stop Loss and Target

We are going to use the ATR% we calculated earlier to find our stop loss and target prices. Let’s assume that we want to execute a Buy order on EUR/USD

at 1.14000 price. To figure out where to put our stop loss, we simply use the Daily ATR% to calculate the stop loss price:

Entry Price: 1.14000

ATR%: 0.74%

We simply multiply the ATR% by the entry price:

Stop loss = $0.74\% \times 1.14000 = 0.008436$

Since we entered a buy order, we need to subtract 0.008436 from our entry price to find the stop loss price: Stop Loss = $1.14000 - 0.008436 = 1.13156$ This is our stop loss price.

Now, let's assume we enter a Sell order at the same entry price 1.14000, our stop loss will be:

Stop Loss = $1.14000 + 0.008436 = 1.14843$ This

is our stop loss price.

When using ATR% to calculate your stop loss orders, you reduce your chances of getting hit and stop out by market movements.

For your target, we multiply the stop loss by 3 (using 1:3 risk-to-reward ratio):

Target = Stop Loss $\times 3 = 0.008436 \times 3 = 0.02530$

For a Buy order:

Target = Entry Price + 0.02530 = $1.14000 + 0.02530 = 1.16530$ **For**

a Sell order:

Target = Entry Price - 0.02530 = $1.14000 - 0.02530 = 1.11470$

Chapter 7 - Build Your Trading Plan

“Fail to plan and you plan to fail.”

Traders who are serious about being successful, should follow these words as if they were written in stone. Ask any successful trader out there and they will tell you that trading without a written plan is a one-way ticket to failure.

In this chapter you will learn the five most essential components that every trading plan should include.

Your Risk Appetite

How much of your capital are you willing to risk on any one trade? You need to specify your trading style and your risk tolerance. In general, traders risk between 1-5% of their capital on a given trading day.

In other words, if you lose 1-5% of your capital at any point in the day, you take a break and stay away from trading.

It is crucial to leave your trading desk to clear your mind, re-assess the situation and start fresh the next day. If you fail to do so, you might end up losing all your capital.

Write Your Goals

In this section, you need to set realistic goals like:

- What is the minimum risk-to-reward you will accept in every trade?

Many traders will not take trades that offer less than 1:3 risk-to-reward ratio. For example, if your stop loss is 10pips, your goal should be at least 30pips or greater.

- I will make 10% return on a monthly basis!

Instead of starting out with a monthly goal of 10%, why not begin with a monthly goal of just 1% or 2%? A goal like this is unlikely to put much pressure on a trader, which is good – trading can be stressful enough without any additional pressure.

Achieving a goal of just 1% per month would put you well ahead of most traders, since the majority of traders lose money. If you have successfully achieved your modest goal for three months in a row, raise the goal to the next plateau – from a 1% monthly goal to 2%, or from 2% to 3%, and so on. Don't rush through this process; remember, as you gain experience and confidence, you will be a better trader in the future than you are now, and you'll be better suited to more aggressive goals.

Define Your Daily Routine

Your trading plan should describe what your daily habits are. This will set you apart from amateur traders that simply start trading without any previous preparation and expect to make big profits in no time.

Your daily routine may include:

- What time do you get up in the morning?
- How do you prepare mentally and physically to start your day? Do you exercise or do yoga?
- How long does it take you to analyze and scan the markets to generate trading ideas?
- Do you have specific markets to watch daily, weekly or monthly?
- Do you need to update your Watchlist every day?
- Are there any economic events for the day? And much more.

The goal here is to stay efficient with your time and avoid any redundancy or doing stupid things.

Your Entry and Exit Strategy

In this section you need to determine the set of conditions you must identify in the market that will validate an entry and confirm an exit. You must be very precise and consistent in applying these rules.

Make sure to define the pairs you want to monitor on a daily basis for potential trading opportunities. You choose between 2 to 7 pairs to trade consistently. You don't have to trade every single pair in the market.

Also make sure before entering a trade, you need to know where your exits and your stops are, what timeframe will you trade and are the pairs correlated or not.

Your strategy should be detailed to help you take the right trading decision and profit from high probability setups.

Keep a Trading Journal

Successful traders keep good trading records. They keep a record of each and every trade they take, both winners and losers.

You need to write down details such as targets, entry and exit prices of each trade, and record comments about why you took these trades and what were the results.

Analyzing your past performance will help you improve your strategy and develop a better trading system.

Here's a trading journal template you can use to start keeping records of your daily trades. Please feel free to adapt it to your trading style and goal.

Trading Journal

Date:

|

Trading Account Size: \$

Daily Loss Limit:

(This is the amount in cash that you can comfortably lose each day during the current week) \$

Daily Lot Size:

|

Best Opportunity:

(Underlying fundamentals, risk events, sentiment shift, price action move, which currency(s))

|

Best Price:

(Overall value, key price levels, confluences & zone, Candle/Chart Patterns, etc.)

|

Overall Conviction: /10

Trade Management:

Risk Exposure:

Number of Positions Opened:

Trade Result:

|

Reasons for trade result:

|