

Trade Like Pro.

The Ultimate Trading
Kit to Master

Supply & Demand
Trade Like Professionals

Jode Lebin

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By Jode Lebin

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Chapter 1 Getting Started in Forex

What Is Forex?

Foreign Exchange (FX or Forex) is the largest market in the world. It is the most liquid market because Forex traders exchange in average \$5 trillion daily.

You might be asking yourself is Forex the best market for you? If you want a market that does not sleep, if you want to keep your full-time job and trade in Forex, if you need to start with a small account and make big profits, then Forex may be for you.

The advantage of trading Forex is the opportunity to take large trades with small amounts of money. The different leverages offered by brokers make it easier for traders to open a trading account with small capital.

All transactions in the Forex market involve two currencies. If a trader, a bank, an institution, or a traveler decides to exchange one currency for another, a Forex trade takes place.

Thus, one currency is being bought and another currency is being sold. Currencies must be compared to something else in order to establish value; this is why Forex trading involves two currencies.

Why Trading Forex?

The Forex market is a market that does not sleep. It is open 24 hours a day, 5 and a half days a week, except the weekends. The reason behind this is because governments, businesses and individuals who require currency exchanging services are spread around the world and in different time zones. For example, currency pairs with Japanese yen are most traded when it is daytime in Japan. However, since there are always counter currencies to

complement the pair, Japanese Yen ends up being traded all day with a spike in activity from 12 a.m. to 8 a.m. GMT.

Why would anyone trade Forex? The market is open after 24 hours and traders with full time jobs are able to trade Forex after work, before work and on Sunday evening.

Another reason is the liquidity of the market. The Forex market is the most liquid market in the world. With most trading concentrated during the New York Session, for example roughly 70% of all Forex transactions involve the US dollar, there are always a lot of people trading. This makes it very easy to get into and out of trades at any time, even in large sizes.

Forex can be accessible anywhere you go and where there is an internet connection. You can trade from your computer, your laptop, or your cell phone. The only things you need are an internet connection and a trading account.

How Does Forex Work?

In Forex, the price of a currency is always determined in another currency. Currencies are grouped into pairs to show the exchange rate between the two currencies.

If you plan to visit a foreign country, you must exchange your home currency for the currency of the country you are visiting. This is a currency transaction. For example, when a traveler from Paris comes to visit the United States, he must exchange Euros for U.S. dollars. The traveler is now selling the Euro and buying the U.S. dollar.

In 2016, the traveler would have received about \$1.11025 in U.S. currency for every Euro. The exchange rate at that time for the Euro/U.S. dollar was about 1.11025 (see figure 1).

Forex traders profit from changes in the exchange rate. Traders tend to buy a currency pair when the price is low and sell it when the price goes up making a profit or loss. The small changes in the exchange rate when traded in a high

leveraged account, traders can make a large profit.

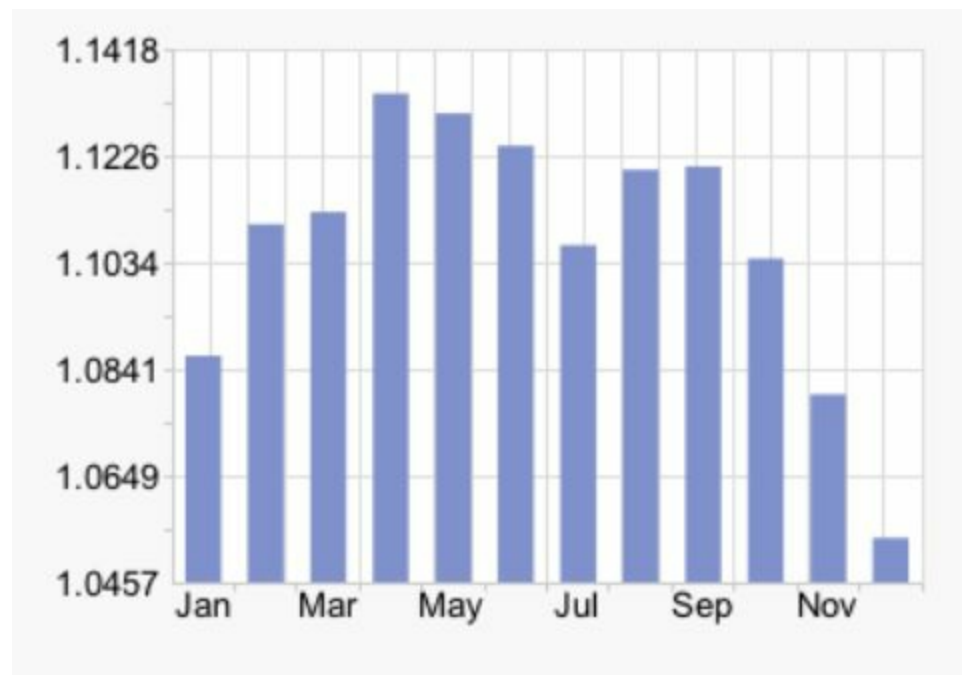


FIGURE 1. Monthly average of Eur/U.S Exchange Rate in 2016.

Source: © X-Rates 2017 x-rates.com,

How Can We Make Money in the Forex Market?

As a Forex trader, you need to open a trading account with a broker and start trading the currency pairs available through the broker's platform. If you are interested in trading pairs with U.S. dollar – for example USDJPY (U.S. Dollar/Japanese Yen), you either buy or sell the pair. When you execute a buy trade you actually buy U.S. dollar and sell Japanese yen. If you decide to short the pair, you enter a sell position where you sell the U.S. dollar and buy the Japanese yen.

The profit you make from your trades is related to how the pair performs in the market during a certain period of time. For example, if you buy USDJPY at 114.256 and the market moves to 114.370 you make profit as the market moves in your predicted direction. But if the market goes from 114.256 to 114.120, you simply lose money and you need to close the trade because the market is moving in the opposite direction from what you predicted. By analyzing the market, you can decide if you are going long or short in a pair

based on your technical analysis.

What Is the Best Time to Trade Forex?

The Forex market is open 24 hours a day from 10 p.m. GMT on Sunday until 9 p.m. GMT on Friday. The reason why Forex market is open 24 hours a day is because currencies are in high demand. Currencies are also needed around the world for international trades, as well as by central banks and global businesses.

The Forex market can be split into three main regions: Australia-Asia, Europe and North America (see figure 2). Within each of these main areas there are several major financial centers. For example, Europe is comprised of major centers like London, Paris, Frankfurt and Zurich. Banks, institutions and dealers all conduct forex trading for themselves and their clients in each of these markets.

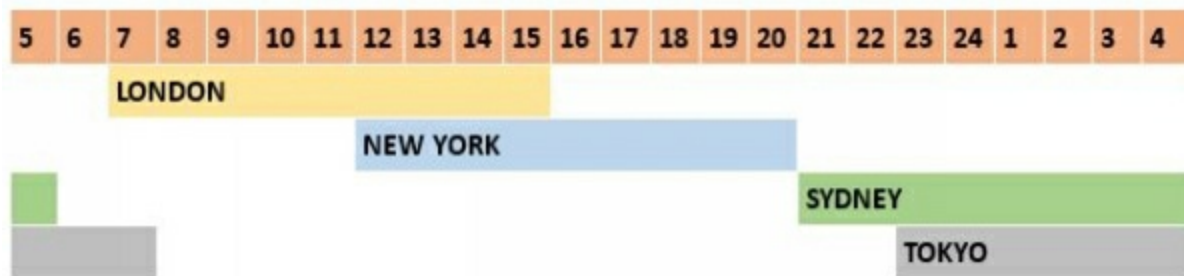


FIGURE 2 . Trading Sessions (GMT) and best time to trade forex.

Each day starts with the opening of the Asian session, followed by Europe and then North America. As one region's market closes another opens, or has already opened, and continues to trade in the Forex market. Often these markets will overlap for a couple hours providing some of the most active Forex trading.

European currencies are most traded from 8 a.m. to 4 p.m. GMT – this is called the London/European session, and from 12 p.m. to 9 p.m. GMT is the North-American trading session.

Although the Sydney, Australia, Forex market opens at 9 p.m. Sunday GMT, it is too thinly traded, so you could wait for the Tokyo market to open an hour later for better trading volume.

Chapter 2 Naked Trading Approach

In this chapter, I will show you how to read a chart and be able to execute trades with no indicator. If you are used to have a screen full of colorful indicators, then it would be very challenging for you to analyze a naked chart. But surely at the end of this chapter, you will be able to analyze any chart of any market with great ease. All the information you need to execute a trade is on the chart.

How to Read a Chart

Reading a chart is a fundamental skill that needs to be mastered by traders before they start trading. It helps determine the trends and the entry points on the chart.

Many forex traders use technical analysis tools and indicators to analyze the market, while others focus on news releases and economic reports. However, all these methods cannot guarantee the success of the trades you execute, simply because most of these indicators are using previous data from the market to simulate a trading signal. Therefore, they are lagging tools and relying on them, in my opinion, will have a negative impact on your trading performance.

1. Chart:

A forex chart is simply a graphical representation of the exchange rate between currencies over time. For example, the chart in figure 3 shows how the exchange rate between the British pound and the U.S. dollar GBPUSD has performed over a period of time.

Each candle of the graph represents a set of trading data during a one-hour time period. If we change the time frame to a daily time frame, each candle will represent one day of trading data. Choosing the appropriate time frame

for your trading system is very important.



Figure 3 . GBPUSD on H1 Timeframe Chart.

2. Candlesticks:

There are three chart types: line, bars, and candlesticks. Many forex traders prefer using Japanese Candlesticks, because they are able to quickly identify the types of price action.

A candlestick chart displays four valuable information about the price of a currency pair: the close, open, low and high price of a given period. By studying these parameters you can see how price moved in the past, where the price opened and closed, and how far did the price go.

The image below represents a typical shape of a candlestick (figure 4). There are three important things to look at when reading a candlestick: open price, close price and tails. The open price is where the candle began and the close price is where the candlestick stops. The open and close prices form the body of a candlestick.

The body of a candlestick represents the difference between the opening and closing price of a given currency pair during a specific period of time. The

body can take various forms from widely large to a horizontal line.

Tails represent the highest and lowest prices reached during a specific time period.

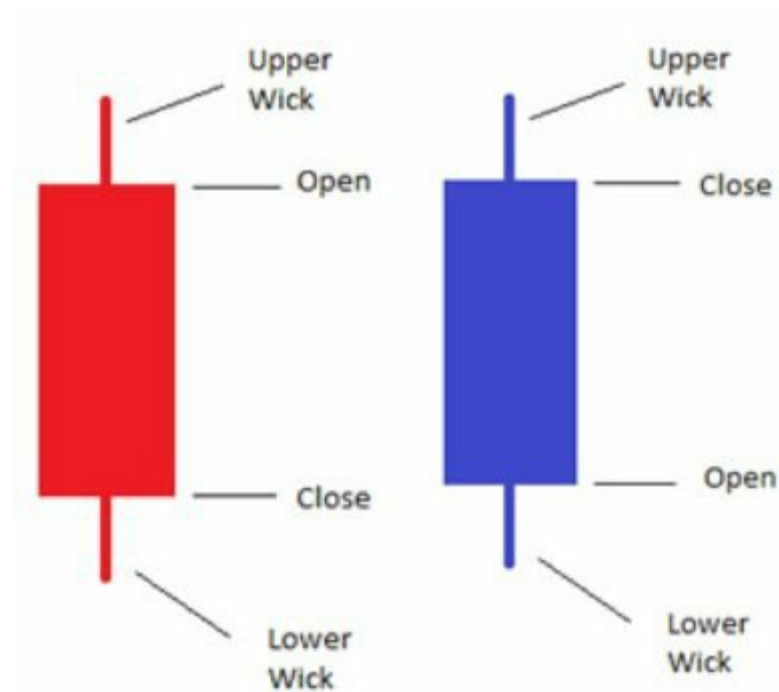


Figure 4 . The Structure of the Japanese Candlesticks.

The tails show how far the price goes up and down before closing. The length of the tails in both sides gives an idea about the state of the market at that period of time. They are quickly identifiable as they protrude from the upper and lower sides of the body by a thin line (short or long).

It is important to note the color of the body of a candlestick. When the body is red/black (by default) the price is down, and when it is blue/white (by default) the price is up.

Identify the Trend and Draw the Trendline

The trend is basically the movements of the market on a chart to either up or down. There are two types of trends: an uptrend and a downtrend. When the market is not trending, it moves sideways.

A trendline is a straight line that connects at least two or more points and extends into the future to act as a line of support or resistance. They are useful for both trend identification and confirmation.

1. Uptrend:

In an uptrend, the candles form a series of higher highs and higher lows. As shown in the next chart (figure 5), the red arrows represent the series of higher highs and the blue arrows represent the higher lows formed during an uptrend.

To draw a trendline you need to draw a straight line that connects two or more low points. The second low has to be higher than the first low for the trendline to have a positive slope (figure 6 & 7).

An uptrend shows that the demand is driving the price higher and higher. A rising price combined with increasing demand is characteristic of a bullish market, and shows that the buyers are taking over the sellers.

When the price breaks below the trendline it is an indication that demand is weakening and sellers are taking over buyers, and that the market will reverse and starts going down.



Figure 5 . Series of higher highs and higher lows during an uptrend.



Figure 6 . Trendline connecting higher lows.



Figure 7 . Trendline connecting more than two low points.

2. Downtrend:

In a downtrend, the candles form a series of lower lows and lower highs. As shown in the next chart (figure 8), the red arrows represent the series of lower

lows and the blue arrows represent the lower highs formed during a downtrend.

To draw a trendline you need to draw a straight line that connects two or more high points. The second high has to be lower than the first low for the trendline to have a negative slope (figure 9 & 10).



Figure 8 . Series of lower lows and lower highs during a downtrend.

A downtrend shows that the supply is driving the price lower and lower. A declining price combined with increasing supply is characteristic of a bearish market, and shows that the sellers are taking over the buyers.

When the price breaks above the trendline it is an indication that supply is weakening and buyers are taking over sellers, and that the market will reverse and starts going up.



Figure 9 . Trendline connecting lower highs.



Figure 10 . Trendline connecting more than two high points.

Retracements and Reversals

A retracement is a temporary change in the direction of an existing trend. When a chart is trending either up or down, it will not go in a straight line but it will experience times of retracements or pullbacks within the larger trend. Traders can use retracements to enter or re-enter the market when the trend resumes its original direction.

For example, the EURJPY on a weekly chart shows a downtrend with retracements within the trend (figure 11). These blue arrows represent the small changes in price that the currency experience during the downtrend.

When the retracement ends, the trend returns to its downtrend move.



Figure 11 . Retracements within a downtrend.

In the case of an uptrend, the blue arrows show the temporary move to the downside and then the trend resumes its original direction (figure 12).

FX:EURJPY, D 129.616 ▲ +0.023 (+0.02%) O: 129.585 H: 129.616 L: 129.572 C: 129.616



Figure 12 . Retracements within an uptrend.

A reversal is a change in the direction of a price trend, which can be a positive or negative change against the prevailing trend (figure 13). An uptrend, which is a series of higher highs and higher lows, reverses into a downtrend by changing to a series of lower highs and lower lows.

A downtrend, which is a series of lower highs and lower lows, reverses into an uptrend by changing to a series of higher highs and higher lows.



Figure 13 . Retracements and Reversal.

Keep in mind that retracements are small changes within a long-term trend, while reversals indicate the change in the long-term trend and the beginning of a new trend.

Understanding Multiple Time Frame Analysis

Multiple time frame analysis is based on analyzing a currency pair, starting with larger time frames and then working your way down to smaller time frames.

Most traders find themselves stuck with only one time frame. This is not wrong, but it limits your chances of success. Multiple time frame analysis gives you more in depth analysis, because you are analyzing several time frames for the same pair to get a broader idea of what the market is doing. It also allows traders to identify market exhaustion and avoid entering against the market's overall trend.

We all know that once the market opens, a currency pair is moving through all time frames at the same time. This is why traders should keep an eye on these time frames to see how the market is performing in time. Therefore, traders need to wait until momentum is aligned in each time frame – all bullish for an uptrend or all bearish for a downtrend.

One thing that confuses many traders is using multiple time frame analysis in their trading strategy. However, “Trade in the direction of the higher time

frame trend” is a true statement, but traders get lost as the trend keeps changing while going through different time frames.

Let’s study the following example:

The USDCAD on a monthly chart (figure 15) shows clearly that the market is in a downtrend. It is important to note that the major trend is down, so no long positions are allowed. In the weekly and daily charts (figures 16 & 17), the trend is the same, and therefore, we need to wait for a pullback to short the market and trade with the trend. But keep in mind that this trend has been running for quite some time, and to avoid trend exhaustion you must keep an eye on smaller time frames. Since we used monthly and weekly charts as higher time frames, we need to go to smaller time frames like H4 or H1 to spot early signs of a potential reversal.



Figure 15 . U.S. dollar/Canadian dollar on a monthly chart.



Figure 16 . U.S. dollar/Canadian dollar on a weekly chart.

Let's see EURAUD on a H1 time frame (figure 18), the price is preparing to break below the trendline and starting going down in a downtrend. But let's go to a higher time frame to see if our analysis is correct. On the weekly chart (figure 19) we have an uptrend and the price still testing the trendline so no break-out below the line yet. On the daily chart (figure 20) the market is still bullish and shorting the pair at this time won't be such a good idea, because only two of the time frames have aligned momentum and further confirmation is needed. Obviously, on H1 chart the market will witness a retracement before resuming its uptrend move. That is why analyzing multiple time frames gives you a broader view of the market so you can make a wise trading decision.



Figure 17 . U.S. dollar/Canadian dollar on a daily chart.



Figure 18 . Euro /Australian dollar on a H1 chart.



Figure 19 . Euro/Australian dollar on a weekly chart.



Figure 20 . Euro/Australian dollar on a daily chart.

Chapter 3 Supply & Demand

What Is Supply and Demand?

Supply and demand is a fundamental subject in microeconomics. It is the study of how buyers and sellers interact to determine transaction prices and quantities.

Demand refers to how much of a product or service is desired by buyers. The quantity demanded is the amount of product people are willing to buy at a certain price.

Supply refers to how much the market can offer for a desired product. The quantity supplied refers to the amount of a certain good producers are willing to supply when receiving a certain price.

Law of Supply

To understand how prices are determined, you have to look at both demand and supply – the willingness and ability of producers to provide goods and services at different prices in the market. The law of supply states that as the price rises for a good, the quantity supplied generally rises, and as the price falls, the quantity supplied also falls.

With supply, a direction relationship exists between the price and quantity supplied. A direct relationship means that when prices rise, quantity supplied will rise too. When prices fall, quantity supplied by sellers will also fall. Thus, a larger quantity will generally be supplied at higher prices than at lower prices. A smaller quantity will generally be supplied at lower prices than at higher prices.

Law of Demand

The law of demand explains how people react to changing prices in terms of the quantities demanded of a good or service. There is an inverse, or

opposite, relationship between quantity demanded and price. The law states that as price goes up, quantity demanded goes down, and as price goes down, quantity demanded goes up.

Several factors explain the inverse relation between price and quantity demanded, or how much people will buy of any item at a particular price. These factors include real income, possible substitutes, and diminishing marginal utility.

Equilibrium vs Disequilibrium

In the real world, supply and demand operate together. As the price of a good goes down, the quantity demanded rises and the quantity supplied falls. As the price goes up, the quantity demanded falls and the quantity supplied rises. Is there a price at which the quantity demanded and the quantity supplied meet? Yes. This level is called the equilibrium price. At this price, the quantity supplied by sellers is the same as the quantity demanded by buyers. One way to visualize equilibrium price is to put supply and demand curves on one graph, as shown in figure 20.

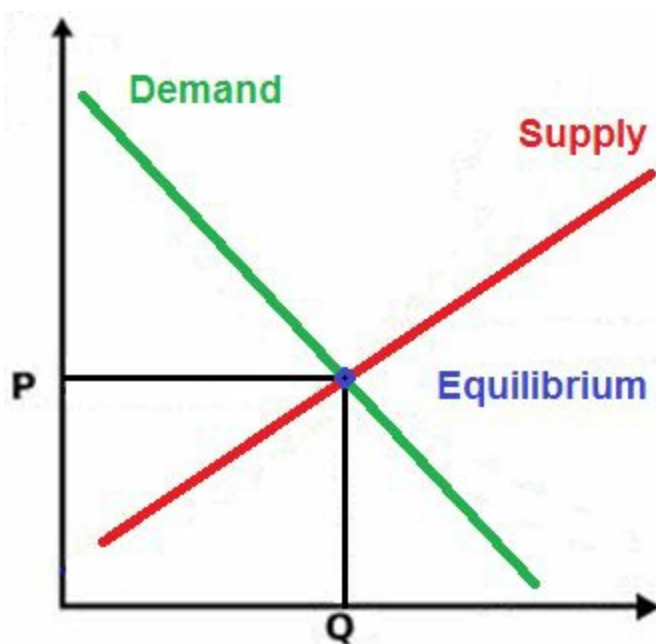


Figure 20 . Represents Equilibrium Using Supply and Demand Curves.

As you can see on the chart, equilibrium occurs at the intersection of the demand and supply curves. Which indicates no allocative inefficiency. At

this point, the price of the goods will be P and the quantity will be Q , these figures are referred to as equilibrium price and quantity.

However, in real market place equilibrium can only ever be reached in theory, so the prices of goods and services are constantly changing in relation to fluctuations in demand and supply.

Disequilibrium occurs whenever the price or quantity is not equal to P or Q .

1. Excess Supply:

If the price is set too high, excess supply will be created within the economy and there will be allocative inefficiency. The suppliers are trying to produce more goods, which they hope to sell to increase profits, but those consuming the goods will find the product less attractive and purchase less because the price is too high.

2. Excess Demand:

Excess demand is created when price is set below the equilibrium price. Because the price is so low, too many consumers want the good while producers are not making enough of it. Thus, there are too few goods being produced to satisfy the wants of the consumers. However, as consumers have to compete with one other to buy the good at this price, the demand will push the price up, making suppliers want to supply more and bringing the price closer to its equilibrium.

Chapter 4 Executing the Strategy

Choose Your Trading Style

There are four main styles of trading: scalping, day trading, swing trading and position trading. The difference between these styles is based on the length of time that traders keep their trades open. Scalping traders are only holding their positions for a few seconds to a few minutes. Day traders keep their positions for anywhere from a few minutes to hours. While swing traders hold their positions for a few days. Finally, position traders are holding their positions for anywhere from a few days to several years.

Choosing the right trading style that best suits your personality and your lifestyle can be a difficult task, but it is absolutely necessary to your long-term success as a professional trader.

- **Scalping:**

Scalping is very rapid trading style, and scalpers often make trades within a very short time. This trading style is very demanding and traders need to make immediate trading decisions and act on it without second guess.

Being a successful scalper requires focus, concentration and most importantly stress management. Because they spend a great time in front of their screens looking for short and quick opportunities, they need to be able to manage their level of stress and keep calm no matter what the outcome is.

- **Day Trading:**

Day trading style is suited for those who like to open and close trades within the same day. They are often unable to sleep at night knowing that they have an active trade that could be affected by overnight price movements.

- **Swing Trading:**

Swing trading is compatible with people that have patience to wait for a trade and be able to hold it overnight. So it is not suitable for those who would be nervous holding a trade while they are away from their computer.

This trading style requires a large stop loss and the ability to keep calm when a trade is going through retracements.

- **Position Trading:**

Position trading is the longest term trading and often has trades that last for several years. Position trading style is more suitable for the most patient, least excited traders and have a large capital to begin with.

Choosing a trading style requires the flexibility to know when a trading style is not working for you, but also requires the consistency to stick with the right trading style even when it is not performing optimally.

One of the biggest mistakes that new traders often make is to change trading styles at the first sign of trouble.

Constantly changing your trading style or trading system is a sure way to catch every losing streak. Once you are comfortable with a particular trading style, remain faithful to it, and it will reward you for your loyalty in the long run.

Build Your Trading Plan

“Fail to plan and you plan to fail” – Those who are serious about being successful traders should follow these words.

Writing a trading plan doesn’t guarantee an absolute success. It only helps you stay focus and avoid costly mistakes. By documenting the process, you learn what works and what does not, and after the market closes you can re-evaluate your performance and easily pinpoint where you went wrong.

Each trader should write their own trading plan, including personal trading styles and goals. Using someone else’s trading plan doesn’t mean it will work for you too.

A trading plan is a set of guidelines and rules that defines your trading activity. It can be quite handy when you have to make quick and wise trading

decisions.

1. General Trading Rules:

- Write down your reasons for trading and your long-term goals that you aim to achieve. This will help you stay focused and organized.
- Keep a trading journal or a trading log with all your trading activities. It is critical in planning a long-term strategy to be able to view your past and present trades and also which markets you are been exposed to.
- Good money management is an important element of any trading plan. You need to have a set of rules for managing your money, especially your risk exposure.

2. Key Questions:

- What is your motivation for trading?
- What is your attitude to risk?
- How much time can you give to trading?
- What is your level of knowledge?

3. What are the benefits of using a trading plan?

The financial market can be volatile at times, and it is at these moments that you could be prone to erratic trading behaviors that could cost you all your capital. A trading plan is a vital point of reference in these situations, because you have taken time to elaborate a plan B in case plan A fails, and therefore, all you have to do is execute your trading plan that you already have established in advance. Act according to your plan, rather than make bad decisions on the spot.

Many traders fail to keep a trading log or a trading journal. It should contain a record of all your trading activities with a section where you write your comments. You can use it to get an overview of your trading history and easily identify success and mistakes made along the way.

No trading plan is complete without including your risk-reward tolerance. By quantifying this in advance, you can assess whether a trade is too risky or not. Your risk-per-trade scale could be like this:

- Low risk 1-2% of total equity,
- Medium risk 2-5% of total equity,
- High risk 5% or more of total equity,

A trading plan can be a constant reminder of your capabilities and your limitations. Having a written plan is extremely useful for a trader to know when and where to enter and exit the market, to stay disciplined and loyal to your trading guidelines.

Identify Supply and Demand Zones

In order to move price on a chart, there must be willing sellers and willing buyers. When you sell a currency pair, let's say EURUSD you are selling Euro to a buyer or buyers willing to buy Euro from you, and buying U.S. dollar from a seller or sellers willing to sell it to you. If there are no sellers and no buyers in the market, the price won't move and no transaction will take place.

There are many players placing trades in the market, which make up the "order flow". These include retail traders, such as yourself, independent and private traders, institutions and professional traders.

The institutions and Hedge Fund Managers are very important because they have big money. Professional traders understand how the Financial Markets work. They trade in the opposite way to the way in which retail traders do things. That explains why only 5% of retail traders make money in the Forex market. Because only 5% know how to trade like professional traders.

The 90% of the retail traders do not know how the Financial Markets work. And most importantly, they trade using indicators and robots and they end up operating in the opposite way in which professionals trade.

By learning how to trade the market using supply and demand, you will be able to enter the market at the same time as professionals and institutions do. We cannot know with certainty where they are placing their orders, but we can use supply and demand to locate high probability areas where big chunk of order flows are still unfilled.

Not all the supply and demand zones yield a 100% guaranteed winning trades, that is why we use price action and other techniques to select high probability setups.

1. Supply Zone:

In the chart below, the price dropped rapidly after making a small pause

around 1.13237 and 1.13874 (figure 21). The red rectangle on the chart represents the area where institutions and professionals are placing their orders and that is what caused the big drop in price.

Notice at the far left of the trend, the market was in an uptrend and then started going down. Retail traders will think this might be a pullback so they enter long position at that area.

The question that we need to ask ourselves is from whom retail traders are buying EURUSD? They are buying it from Institutions and Professional Traders that are selling it to them in order to short the market and therefore, go against the retail traders.

No one would think that we need to go short at that particular price level, because conventional technical analysis states that we need to trade with the trend and not the way around.



Figure 21 . Supply Zone.

The red rectangle represents a pile of sell orders, which is where we are looking for trading opportunities. The imbalance is created by the increasing number of sellers over buyers, and therefore, the sellers are taking control of the market and buying at this price level will be a bad idea.

Let's place a sell order at this supply zone around 1.3237, and wait for the price to return and test the level.

On the next chart, we can see that the price did actually return to the zone and triggered our order (figure 22). The trade worked out perfectly and the price dropped to approximately 1.08100. That is a very profitable trade with low risk and high profitability of success.

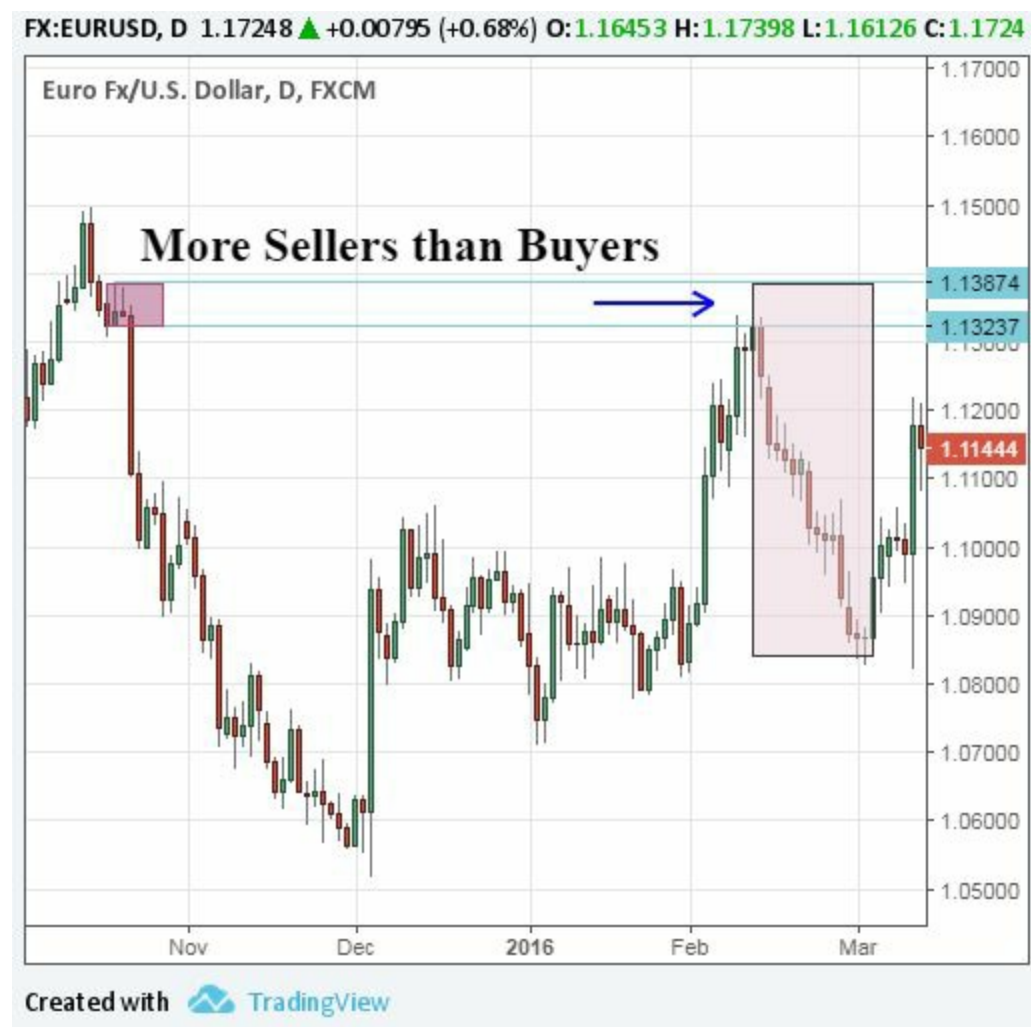


Figure 22 . Price returned to the supply zone and hit the limit order.

2. Demand Zone:

In figure 23, the price created a demand level between 118.772 and 120.230. This is where we need to look for opportunities to go long.

The small green rectangle on the left represents the area where institutions and professionals are placing their orders and that is what caused the big rally in price.

In late February, the market created a nice big bearish candle. Retail traders would consider this a confirmation to go short, but things went a little different and the market went up. The imbalance is created by the increasing number of buyers over sellers, and therefore, the buyers are taking control of the market and selling at this price level will be risky. Again, who's going to sell here, of course the retail traders, and the buyers are institutions and professional traders.

Let's place a buy order at this demand zone at 120.230, and wait for the price to return and test this level. The price returned to the zone and triggered our buy order. The trade worked out perfectly and the price rallied to almost reach 131.000. That is again a very profitable trade with low risk and high profitability of success.

FX:EURJPY, D 130.320 ▲ +0.041 (+0.03%) O:130.279 H:130.609 L:129.936 C:130.320



Figure 23 . Price returned to test the demand zone and hit the limit order.

3. What are the types of supply and demand zones?

There are four different types of supply and demand structures. These structures are based on their locations in the trend. If a supply or demand zone is created inside the trend, then we have a drop-base-drop or a rally-base-rally structures, and if they are formed at reversal points then we have a rally-base-drop or a drop-base-rally structures.

Let's define each of these formations:

- **Rally-base-drop (RBD)**

The rally-base-drop is a structure that forms a supply zone in the market. It is characterized by a rally in price, followed by a base or

consolidation and then a strong drop in price (figure 24).

We only find this structure at reversal points. In other words, the rally-base-drop is only found when the trend reverses from going up to going down.



Figure 24 . Rally-base-drop type of structure.

- **Drop-base-rally (DBR)**

The drop-base-rally is a structure that forms a demand zone in the market. It is characterized by a drop in price, followed by a base and then a strong rally in price (figure 25).

We only find this structure at reversal points where the trend is reversing from going down to going up.



Figure 25 . Drop-base-rally type of structure.

- **Rally-base-rally (RBR)**

The rally-base-rally is a structure that forms a demand zone in the market, and it is found only when the market is trending up (figure 26). It is characterized by a rally in price, followed by a consolidation and another rally up. If the market returns to this structure, the price will go up.

FX:EURJPY, 240 130.333 ▼ -0.123 (-0.09%) O:130.456 H:130.557 L:130.302 C:130.333



Figure 26 . Rally-base-rally type of structure.

- **Drop-base-drop (DBD)**

The drop-base-drop is a structure that forms a supply zone in the market, and that it is found only when the market is trending down (figure 27). It is characterized by a drop in price, followed by a consolidation, and another drop down. If the market returns to this structure it will make the price go down.



Figure 27 . Drop-base-drop type of structure.

How to Draw Supply Zone

In order to locate a supply zone, we need to find a nice strong drop in price or a group of bearish candles. The chart below shows how the price left the base (figure 28). The price has rallied up, paused for a little time forming a consolidation structure (base), then the price dropped from the base with very long bearish candles. This is a supply zone with a rally-base-drop type of structure.



Figure 28 . The price rallied up, consolidated and then dropped down.

As we know, we have two types of supply structures: rally-base-drop (RBD) and drop-base-drop (DBD). Once we identify these structures on a chart, the next step is to look at the base structure. The structure of the base is important for us to successfully draw a supply zone. The price has to spend as little time as possible in the base to be considered as a high probability setup (figure 29). A base with a range of one to six candles is considered an excellent base structure.



Figure 29 . A two candle base.

To draw the supply zone, we first identify the structure (RBD or DBD), then locate the base and draw two horizontal lines, one at the top of the basing candles including the tails (wicks), and the other line at the bottom of the basing candles including only the candles' body (figures 30 & 31).



Figure 30 . Drop-base-drop type of supply zone.



Figure 31 . Rally-base-drop type of supply zone.

How to Draw Demand Zone

In order to locate a demand zone, we need to find a nice rally in price or a group of bullish candles. The chart below shows how the price has dropped down, paused for a little time forming a consolidation structure (base), then the price rallied up from the base with very long bullish candles creating a demand zone (figure 32).



Figure 32 . Base structure in demand zone.

Once we identify the demand zone on a chart, we also look at the base structure. A base with less than six candles is considered an excellent base to use.

To draw the demand zone, we draw two horizontal lines, one line at the top of the basing candles including only the candles' body, and the other line at the bottom of the basing candles including the tails (wicks) (figures 33 & 34).



Figure 33 . Rally-base-rally type of demand zone.



Figure 34 . Drop-base-rally type of demand zone.

Trading Strategy

A consistent Forex trading strategy provides advantageous entry signals, but it is also vital to consider: position sizing, risk management and when and where to exit a trade.

This strategy is not exclusive to a specific trading style, and it does use two key concepts:

- supply and demand,
- multiple time frame analysis.

These concepts give you two important things:

- follow the bigger move,
- better entry and exit points for your trades.

These are a selection of multiple time frames you can use in your trading analysis based on your trading style:

- Scalping trading: 15min/ 5min/ 1min,
- Day trading: 1h/ 15min/ 5min, or 4h/ 1h/ 15min,
- Swing trading: Daily/ 4h/ 1h, or Weekly/Daily/ 4h,
- Position trading: Monthly/ Weekly/ Daily,

Step one: “Where is the price in the curve?”

The first thing we need to do is to choose our multiple time frame selection. We are going to use Monthly/Weekly/Daily selection to explain the strategy. Once we choose the right selection that best suits our trading style, we start with the higher time frame because it provides sufficient overview of the past price action to help us:

1. Identify whether the market is trending (uptrend or downtrend), reversing or ranging,
2. Locate major supply and demand zones,
3. Identify the big picture of the market to see where the price is in the curve:
 1. cup-like shape in case of a supply zone (figure 35),
 2. hat-like shape in case of demand zone (figure 36),

In this time frame we will assess how high or how low the price is in the curve. It will tell us if we are too high to buy or too low to sell in the market. As a general rule, if the price is near supply zone and high in the curve, we only sell in the market. If the price is near demand zone and low in curve, we only buy in the market. If the price is at equilibrium (in the middle of the curve), we wait for either bullish evidence to go long or bearish evidence to go short in the market. Otherwise, we do nothing and we wait for the price to be either high or low in the curve.



Figure 35 . Cup-like Shape Structure.



Figure 36 . Hat-like Shape Structure.

Let's go over some examples to better understand these concepts. In the next chart (figure 37):

- Higher Time Frame: Monthly Chart,
- Big Picture: Cup-like shape structure,
- Price in the curve: Price is low in the curve,
- Trend: Uptrend.

As we can see, the price is low in the curve which means we only buy in this market. We have enough room to go long because the price is still far enough from the supply zone.



Figure 37 . Higher time frame supply and demand curve.

The next chart (figure 38):

- Higher Time Frame: Monthly Chart,
- Big Picture: Hat-like shape structure,
- Price in the curve: Price is high in the curve,
- Trend: Downtrend.

As we can see, the price is high in the curve which means we only sell in this market. We have enough room to go short because price is still far enough from the demand zone.



Figure 38 . Higher time frame supply and demand curve.

Step two: “The trend time frame”

Finding the trend is one of the trickiest things a trader will have to deal with, because every timeframe has its own trend. You may find an uptrend on H4, but the daily timeframe is in a downtrend, and the weekly timeframe in an uptrend, which is quite confusing for novice traders.

This is why in this strategy we are using multiple time frame analysis to assign specific task to each time frame so the trader won't get lost.

We use the intermediate time frame to find the trend. Since we have chosen the monthly time frame to find the curve, now we are using the weekly time frame to find the trend.

Step three: “The entry time frame”

This is where we choose the entry where we will be drawing our entry supply and demand levels.

- **Lower Time Frame: Daily timeframe,**
This is where we draw the supply and demand zones, execute and manage our trades. If the daily timeframe is too wide, we can drill it down by using H4 or H1 to fine tune our entry.
- **Stop loss and exit point:** we place our stop loss order below/above the

supply or demand zones, and for the exit point we could either use the reward-risk ration (3:1) to calculate your exit point or use the opposite supply (when we enter a buy order) or demand (when we enter a sell order) zone as an exit point.

Conclusion

- Don't Buy when price is high in curve or near supply zone,
- Don't Sell when price is low in curve or near demand zone,
- If you missed a trade do not jump into the market, instead wait for another chance to come,

Now let's take an example to understand how the strategy works:

Step one: "Where is the price in the curve?"

- Multiple Time Frame Selection: Daily/H4/H1,
- Higher Time Frame: Daily Chart (figure 39),
- Big Picture: Cup-like shape structure,
- Price in the curve: Price is high in the curve,
- Trend: Uptrend.



Figure 39 . Daily timeframe with supply and demand zones in the curve.

Step two: “The trend Time Frame”

- Trend Time Frame: H4 Chart (figure 40),
- Trend: Uptrend.



Figure 40 . The trend timeframe chart.

Step Three: “The entry time frame”

- Lower Time Frame: H1 Chart to draw our supply zone (figure 41),
- We place our pending order at the lower line of the supply zone,
- Price will continue up and hit our order,
- We use the opposing demand zone as an exit point to close the trade.



Figure 41 . The entry timeframe chart.

Another example:

Step one: “Where is the price in the curve?”

- Multiple Time Frame Selection: Weekly/Daily/H4 or H1,
- Higher Time Frame: Weekly Chart (figure 42),
- Big Picture: Hat-like shape structure,
- Price in the curve: Price is low in the curve,
- Trend: Uptrend.

In this example we have a previous demand zone that we have found by scrolling left of the weekly chart (figure 43). We are going to use this demand level, because the price has tested it as we can see, and in case the price retest it again we will go long.

FX:AUDUSD, W 0.78871 ▼ -0.00242 (-0.31%) O:0.79174 H:0.79485 L:0.78551 C:0.78871



Created with TradingView

Figure 42 . Weekly timeframe with supply and demand curve.

Step two: “The trend Time Frame”

- Trend Time Frame: Daily Chart (figure 44),
- Trend: Uptrend.

FX:AUDUSD, W 0.78871 ▼ -0.00242 (-0.31%) O:0.79174 H:0.79485 L:0.78551 C:0.78871



Created with TradingView

Figure 43 . Previous demand zone on weekly chart.

Step Three: “The entry time frame”

This is an interesting example because we have two trades to execute. Let’s begin with the demand zone we identified, on daily timeframe we noticed that the price has tested the zone, so we will place a limit order at this level in case the price re-test this zone again.



Figure 44 . The trend timeframe chart.

On the next chart (figure 45) we draw our demand zone on H4 timeframe and place our limit order. The price pulled back and hit our buy order.



Figure 45 . Price tested the demand zone and hit limit order.

So part 1 of the step three is:

- Lower Time Frame: H4 Chart to draw our demand zone (figure 45),
- We place our buy limit order at the top line of the demand zone,
- We place our stop loss order at the bottom line of the demand zone,
- We use the opposing supply zones as the exit points to close the trade progressively as the market moves up (figure 46),

Now that the price is in an uptrend, let us locate a supply zone on H4 and find an opportunity to short the market.



Figure 46 . Potential targets using opposing supply levels.

So part 2 of the step three is:

- Lower Time Frame: H4 Chart to draw our supply zone (figure 47),
- We place our sell limit order at the bottom line of the supply zone,
- We place our stop loss order at the top line of the supply zone,
- We use the opposing demand zones as the exit points to close the trade progressively as the market moves down,



Figure 47 . Potential targets using opposing demand levels.

How Do You Choose High Probability Zones?

Trading with supply and demand can be extremely rewarding if you follow the strategy and enter the market at the right time.

Most traders fail to make money, because they trade what they believe instead of what they see. No matter what strategy you are using, if you have no patience and no discipline, you will always lose in this business.

Now that you know how to find and trade supply and demand zones, let's see how you can filter these levels and choose only those with high probability of success.

I am going to share with you a few tips to increase your odds of success and be able to make money in Forex market.

1. Fresh Level vs Original Level

1. What Is a Fresh Level?

A fresh level simply means that the price has not returned to test the supply or demand zone. Once the price retests the zone, the level is no longer

considered fresh and it is called non-fresh level. If the price keeps returning to the same level, we say that the level is used up, in other words, if we enter a trade at that level our chances of winning are down to zero.

We need to choose fresh supply and demand levels to increase our chances of making money. By eliminating those non-fresh and used up levels, we have increased the odds of winning the trade.

Supply and demand levels can be either:

- Fresh Levels,
- Non-Fresh Levels, or
- Used up levels,

2. How to tell if your level is fresh, non-fresh, or used up?

All we need to do is:

1. Find our supply or demand zone,
2. Look right to see if the price has or has not touched the zone,
3. If the price has not touched it then the level is fresh, if it did touch it once then the level is non-fresh and if it touched it more than once then the level is called used up.

So as a rule of thumb, if you have a supply or a demand zone and you find out that it is not fresh, you need to forget that zone and look for another opportunity. You could trade a non-fresh level, but again our goal is to look for the high probability setups and non-fresh levels might not work for you all the time.

Let's see couple of examples:

The next chart shows a fresh supply level (figure 48). By looking to the right of the supply zone we identified, we notice that the price has not pulled back yet to test the zone, and therefore, the supply zone is considered fresh.

Same thing for a demand zone, we look to the right and see if the price has pulled back to test the demand zone. In the next chart (figure 49), we can see that the price in an uptrend and as it goes up, the price is creating new fresh demand zones. If the price pulled back to these zones (figure 50), they will be considered non-fresh or used up (if the price tests the zone more than once).

Now let's see examples of non-fresh and used up levels:



Figure 48 . Fresh supply zone.

FX:EURUSD, D 1.17731 ▼ -0.00947 (-0.8%) O:1.18678 H:1.18890 L:1.17282 C:1.17731



Created with TradingView

Figure 49 . Fresh Demand Levels.



Figure 50. Non-Fresh and Used Up Supply and Demand Levels.

3. What Is an Original Level?

An original level is a level of supply or demand that are created from nowhere, in other words, it is a level that is not caused by any previous level (figure 51).

4. How to tell if your level is original or not?

We look to the left side of the chart and we draw a horizontal line from our zone and we scroll to the left until we touch a candle. If the candle is a part of a previous supply or demand zone, then our zone is not considered original.

FX:EURUSD, D 1.17731 ▼ -0.00947 (-0.8%) O:1.18678 H:1.18890 L:1.17282 C:1.17731



Created with TradingView

Figure 51. Original Supply Level.

2. Overlapping Zones

The most significant areas of the chart are “overlapping zones”. The multiple time frame analysis gives us the possibility to spot high probability supply and demand zones. If the zone on a smaller time frame chart coincides with a level on a larger time frame chart, then the probability of that zone working out is very high (figure 52). The higher the number of overlapping zones, the better the probability of success at that level.



Figure 52. Overlapping Supply Zones.

Sometimes we can have overlapping zones in the same time frame, which is also a strong confirmation signal to trade that level (figure 53). We have two supply zones one below the other, both drop-base-drop type of structure, we notice that the two zones are overlapping and when the price pulled back, it retested both the zones. This created a very profitable setup to short the market. Look how the price dropped from the supply zones.

FX:EURUSD, D 1.17731 ▼ -0.00947 (-0.8%) O:1.18678 H:1.18890 L:1.17282 C:1.17731



Created with TradingView

Figure 53 . Overlapping Supply Zones in the same time frame.

In figure 54, the price pulled back to test the previous demand zone created a new demand zone that overlaps with the previous one creating a good opportunity to go long in this pair.



Figure 54 . Overlapping Demand Zones in the same time frame.

3. Reward-to-Risk Ratio

Not all supply and demand zones work out a 100% of the time, that why we need to filter them to increase our profitability on the market.

The reward-to-risk ratio gives an idea of how the trade could work out. Once we locate a supply or demand zone, we need to calculate our reward-to-risk ratio before opening the trade.

A ratio of 3:1 reward-to-risk ratio is a perfect ratio, because we are risking 1 to gain 3. For example, if my trade has 10 pips stop loss, then my target should be at least 30 pips away from my entry point. If the market doesn't give us a 3:1 ratio, we stay away from the trade and we look for another one offering 3:1 reward-to-risk ratio.

A 2:1 ratio is also a good ratio, and trades could work out just fine, but again we are choosing high probability setups and leaving those with low rate of success.

FX:EURCAD, D 1.49310 ▲ +0.00030 (+0.02%) O:1.49280 H:1.49374 L:1.49225 C:1.49310



Created with TradingView

Figure 55 . 3:1 Reward-to-Risk Ratio trade.



Figure 56 . 2:1 Reward-to-Risk Ratio Trade.

4. Price Action

1. Base:

Let's begin with the base. The optimal structure that we are looking for is a base with one to six candles at the most. A base with many candles is not a good base to have in a zone, because the price often rejects these levels (figure 57).

We also need to pay close attention to the nature of candles that form the base. In other words, if the base has candles with long thin tails and small bodies, then the base will surely not work out (figure 58).

2. Doji Candle:

Doji candles are also very important in spotting weak levels of supply and demand (figure 59). Whenever we have a doji candle we know for sure that this level is not going to work out as we planned.

Because doji candles are signs of indecision from both bulls and bears, which means that the supply equals demand (state of equilibrium). So when the market forms doji candles, it is a revealing sign for a potential change in direction.



Figure 57 . Base with more than six candles.



Figure 58 . Candles with long thin tails.

3. Engulfing Candles:

Engulfing candle is a candle whose body engulfs the previous candle's body. We can use engulfing candles to get further confirmation from the market (figures 60 & 61). When the price returned to test the supply or demand level, if the market retest the zone but keeps ranging, we could wait for an engulfing candle to form before deciding whether we keep the trade or to close it.



Figure 59 . Doji candles in base structure.



Figure 60 . Engulfing candle.



Figure 61 . Engulfing candle.

Chapter 5 Risk Management

Why Is Risk Management Important?

Risk management is the most important topics about trading. Why is it important? Well, trading is a business of making money, and to make money you have to learn how to manage your capital and your potential losses.

This is one of the most neglected areas in trading. Many traders are anxious to get right into trading without choosing the right lot size for their positions. When you trade without a risk management plan, you are actually gambling. You are not looking at the long-term return on your investment. Instead, you are only looking for that "winning lottery ticket."

You can have the best trading system in the world, and still lose all your money in the market. Risk management will protect your capital from unnecessary losses and make your account profitable in the long run.

Always Have a Trading Plan

Many newbies begin trading without a trading plan. This is one of the main reasons why they keep losing all their money in the market. Even with a trading plan, if it lacks proper money management, they still lose all their capital.

Strict money management is essential to achieve long-term profitability in the market. The high level of leverage threatens the longevity of your capital by exposing your account to over leveraged positions. Successful risk management plan aims at preserving your initial trading capital.

Leverage and Lot Size

Leverage is the amount of a trading position you can control with a given amount of margin. The leverage ratio is the ratio of that amount of leverage to the amount of margin. A leverage ratio of 100:1 would mean that you can control \$100,000 worth a position with just \$1,000 on deposit as margin.

Retail traders have to understand this concept of leverage since they are usually required to trade on margin rather than credit.

This is where true risk management is important. Brokers in the industry tend to highlight the benefits of using high leverage. Traders with no risk management plan place large position in the market aiming for large profit. Instead, they lose all their money in the market.

Not every one of us has \$10,000 or \$5,000 to open an account with that is why you need to understand the risk of using such leveraged accounts and large lots when you trade with a small account.

You need to be as conservative as you can, at least at the beginning. Each trader has his own risk tolerance level that must stick with it.

By keeping a smaller lot size will allow you to stay flexible and manage your trades with logic rather than emotions.

Correlation and Risk Management

Another way to reducing your potential risk in the market is to include the power of correlation between currency pairs.

For example, if you go short on EURUSD and long on USDCAD, you are exposed two times to the USD, and in the same direction. It means that you are long 2 lots of USD. If the USD goes down, you have two losing positions with 2 lot size. Keeping your overall exposure under control will reduce your risk of a call margin.

Stop Loss and Trailing Stop

Risk management consists of learning how to control your losses. You have to know when to cut your losses as early as possible to preserve your capital.

Traders should always trade with a proper stop loss. Once your stop loss is set on your trading platform, refrain from moving it farther as the market moves. By constantly changing your stop loss, you will ruin your account at the end of the day.

Stop Losses are your emergency exit, and should protect your account when

your positions go wrong. If you set your stop too close to your price, or too far from your entry, it is going to get hit or get a margin call, and either way you lose money.

Traders can also use trailing stops to secure profits as the market moves in your favor. Trailing stops move your stops as the market moves farther away from your entry point. The stops will be triggered once the trend changes direction securing maximum profitability and protecting your account from potential losses.

Rules of Risk Management

- If you lose trades consecutively, you can either lower your trading size by 50%, or take a break from trading. When you come back, you should trade smaller positions until you start winning again.
- Only risk 1% of your capital per trade. You must avoid opening large positions to make up your losses.
- Set and forget. Once you open a position, leave it. If you keep moving your stops, you are only increasing the risk of making wrong decisions.
- Keep a trading journal as you trade. You can record details about your positions and the market conditions. Keeping a trading log will help you improve your trading skills and learn from your previous mistakes.
- Stick to your strategy. You cannot change your plan just because you lost two or three trades. Losing trades is part of the equation, and by sticking to your strategy for a period of time you can then assess its reliability.
- Do not take losses personally. It is not your fault the market is not moving in the desired direction. Instead, you need to adopt a neutral trading style.
- Do not let losing trades run. Protect your capital from unnecessary losses. The sooner you cut your losses, the better you preserve your capital.
- Do not jump on a trade just because you see the price moving down or up. Instead, wait for the market to retrace back and be prepared to enter

at the right moment.

- Never trade money that you cannot afford to lose. Always trade money that won't affect your daily life.
- Always use a proper stop loss with your trades. Don't let the market swipe off all your balance. Stop loss will stop your positions from losing any further money from your account.

Reward-to-Risk Ratio

Another way to increase your profitability is to choose trades that offer a 3:1 reward-to-risk ratio. This means that you have the potential to make three times more than what you are risking. You can use this reward-to-risk ratio as a filter to help you cherry-pick trades with low risk and high reward.

Now, if you go short on EURUSD and you are risking 53 pips, you would need 166 pips as your reward. By doing this, your reward-to-risk would be near 3:1 ratio.

Keep in mind that this reward-to-risk ratio must be adjusted depending on your trading style, the market environment, and the time frame you are using. For example, a swing trader could have a reward-to-risk ratio of 9:1 while a scalper could be somewhere near 0.8:1.

Conclusion

Risk management is all about keeping your trades under control. Using proper risk management is what separates professional traders from gamblers. By avoiding risky behavior, you certainly increase the probability of a steady growth of your capital.

Chapter 6 Some Final Thoughts

Amateurs vs Professionals

When judging your trading performance record, an institutional or a hedge fund company will first determine whether your returns are due to your brilliant decision making or if they are result of excessive risk and pure luck.

Let's say we have two traders, both with starting capital of \$100,000. Trader A was able to double the initial investment to \$200,000, a gain of 100%, although along the way he suffered a loss of 50%.

Trader B's account rose to \$140,000, a gain of just 40%, and his worst loss was just 4% of the account's value. Which trader is the better of the two?

Trader A had the larger return by far, but anyone who is willing to lose 50% of his account, is a good candidate to lose it all. This trader probably holds on to losing trades, or even adds to them, which is the trademark of failure in this business.

Trader B is by far the superior trader, because he was able to achieve substantial gains with just a minimal loss. Typically, at this point the hedge fund will want to know how much money Trader B could comfortably trade, and then give him a percentage of that amount. The hedge fund will monitor his returns and allocate more capital if Trader B can continue to put up solid, consistent numbers.

Trader A's gains were two times the size of his worst loss, while Trader B's gains were 10 times larger than his worst loss. Based on this result, Trader B is an excellent candidate to trade institutional money.

Why Doesn't Everyone Do It?

So why doesn't everybody trade for larger profits? Why do so many traders fall into the trap of trading against the market? There are a couple of possible answers:

- They don't understand that using indicators and technical analysis tools is stacking the odds against themselves.
- They have harmful preconceived notions about the nature of trading itself.

The problem is that trading isn't always what we believe it to be, or wish it were. I know exactly what I would like trading to be, and here it is: I'd wake up in the morning, trade for an hour, make a ton of money, close my positions, and do whatever I want for the rest of the day. That is only possible in your dreams but not in real life.

Traders often dream about getting rich in no time and live the life they deserve. But in the real trading world, it is the market which dictates the rules not traders. Instead of wasting time forcing things to happen, traders should trade what they see on charts and what the markets offer.

To become a successful trader you need to stop trading a market that exists in your dreams, not in reality.

Consistency Is the Key

This is not to suggest that a monthly gain of 10% is easy to achieve, but it does demonstrate the power of breaking our goals down into manageable targets. Consistency is the key; it is not that difficult to achieve a 10% return in any given month, but it is considerably harder to achieve a minimum 10% return every month.

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.