



STRATEGIES  
**FOR SUCCESSFUL TRADERS**

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VOL. 1

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# Introduction

Trading the markets is very similar to running a business. In both cases, in order to earn money, risk has to be taken. However, risk which is not managed, can lead to losing more money than you earn; just like in gambling. Professional traders know that the idea behind trading for a living is not to win each and every trade, simply because it's impossible.

Even Warren Buffet loses money. The true aim of trading is to gain an edge over the markets, constantly exploiting inefficiencies to win overall through the implementation of strict risk management.

## Risk Management

The process of quantifying how much capital to risk per trade and in the context of your overall capital.





# Your Trading Capital

Let us begin, by looking at how much trading capital you need to start with. In order to decide that, you must first understand your risk tolerance. It is a well known fact that it takes money to make money and a simple truth is that the majority of traders fail because they are undercapitalized and consequently overleveraged.

As a rule of thumb, a conservative trader should risk no more than 2% of his capital on 1 single trade. But just like all things in life, different people have different risk tolerance levels. For example: a young up-and-coming trader may be looking to risk 10-20% per trade in hopes of making larger profits while a 77 year old pensioner will be more risk averse and only want to risk 1% per trade to make a more conservative return. Let's assume the medium risk tolerance level stands at 5-15% per trade.

Let us look at an example of how this would affect your risk management in the context of your overall capital. We have two traders, Rob and Ted, both want to risk \$250 per trade as they have the same return objectives. Rob, being prudent and aware of risk management, invests \$5,000, so that each trade taken, is risking 5% of his initial capital. Ted on the other hand, not being as risk management savvy, only deposits \$750, effectively risking 33% per trade.

Who do you think will have a better chance of being a successful trader? That is correct, Rob has the better chance. Trading is a long term relationship and Rob has allowed himself room to make 20 losing trades in a row before losing his starting capital. Ted, on the other hand, can lose all his trading capital after just 3 bad trades. Statistics tell us that even if they flip a coin for the direction of every trade they take, they have a 50% chance of being right, over time. But it could mean they'll suffer several consecutive losses before the win rate returns to the average of 50%. Rob has effectively bought himself time, by being conscious of risk management, and giving himself a better chance of surviving.

All Rob needs to do is to enhance his financial knowledge, increase his win rate to over 60% (just 10% more than a coin flip) and he is well on his way to a perfect portfolio. Now that you understand that trading, like any other business, requires funds and time, you are ready to move on to the advanced section where we will look at various trading techniques and risk management.



# Risk Management for CFDs

Unlike inferior trading methods (such as binaries), CFDs do not have a fixed risk and return per trade, rather risk and return are determined by distances in price, from the open price to the close price and the exposure traded per trade. On the plus side, CFDs allow returns well above what you can achieve in binaries, with theoretically no cap.

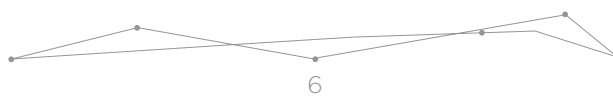
One way to manage the risk and return from a CFD trade is through the use of stop loss and take profit. A risk conscious trader would first decide on the amount to be risked per trade, and then decide on an effective price level to place the stop loss should the trade go against them. Once you have these two factors, you can enter a trade for the exposure that would result in you losing roughly what you are prepared to lose should the stop loss be hit. Let us look at an example.

If Rob, with his 5k and 2% risk per trade, analyses the market and decides it's time to buy the EURUSD at 1.1250 with a SL at 1.1230 (a 20 pip stop), he would approach this by finding how much he is willing to risk, which is 100 USD ( $5000 \times 0.02$ ) and dividing it by the pips to his SL, which would imply a risk of 5 USD per pip ( $100/20$ ). In addition we know that for each 100,000 invested in the EURUSD, 1 pip is worth 10 USD, therefore Rob should open 0.5 ( $5/10$ ) times 100,000, or an exposure of 50 000 in order for him to obey his 2% risk rule.

If the SL ROB planned on placing was 40 pips away, it would follow that he would only open 25,000 in exposure on the asset. That would be 2.50 USD per pip ( $100\text{USD}/40$  pips) and divided that by 10 USD, would give us the 25,000 ( $2.5/10$ ). To summarize, the further the SL, the smaller the exposure you should use so that you don't overleverage your account and in this way always stay within your risk mandate.

We have seen the downside to CFD trading, but what about the potential returns, which can outstrip your investment several fold. As a general rule your return should be 1:1 or higher. The higher the better. A return to risk ratio of 2:1 implies that for every 100 USD you risk, you will profit 200 USD or a 200% pay out, therefore even if you manage a 50%-win rate, you will be in profit. If you lose 5 trades of 10 (or a total of 500 USD) but make 5 trades of 200 USD or a total of 1000 USD, you will still be in profit of 500 USD.

In the case of Rob's trade, he would have a TP at least 20 pips or more from his entry to ensure a 1:1 reward to risk ratio, but we know Rob is a good trader and he generally places a 1.5 to 1 reward to risk ratio, or alternatively stated Rob likes a pay-out of 150%, implying that he would have his TP 30 ( $20 \times 1.5$ ) pips away at 1.1200 in the first scenario. The power of effective management is no doubt clear to you now, so be like ROB and you'll be well on your way to financial freedom.





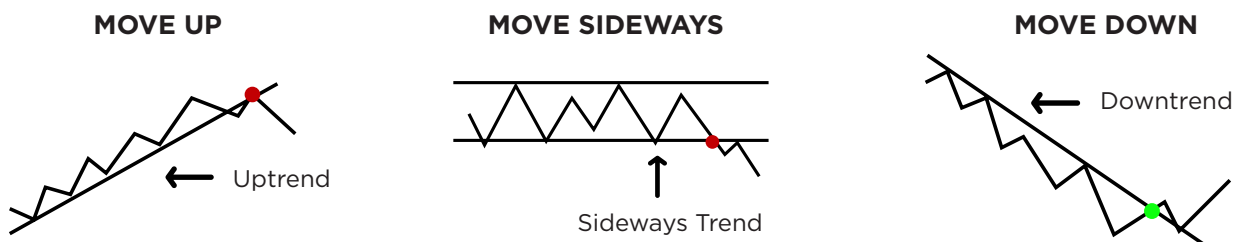
HOW TO USE  
**Technical Analysis**

Technical analysts look for similar patterns to those formed in the past and look to profit as they believe price will act the same way it did in the past, once these formations are identified.

## Technical Analysis

The art of looking at historical price movement and determining the current market conditions and potential price movement.

Market conditions refer to whether a specific asset's price is trending or ranging, an asset can only do 1 of three things: move up, move down or move sideways.



A technical analyst will interpret price movement, depending on which market condition is prevalent, and decide on the price levels and indicators he uses accordingly.

Indicators come in many shapes and forms. They fall into two main groups: trending and oscillating indicators.

Trend indicators enable a trader to identify which market is in a trend, determine the direction and strength of the trend and help find entries and exits for trading the trend. Popular trend indicators are the Moving Average, Parabolic SAR and Bollinger Bands, which all make for profitable trading when traded correctly.

## Oscillating indicators

Useful when markets are moving sideways or ranging, these indicators help to determine upper and lower boundaries of that range, by showing overbought and oversold levels. If an oscillator shows an asset is overbought, a trader will look to sell the asset. And if the oscillator shows the asset to be oversold the trader will look to buy the asset. Popular oscillator indicators are the Stochastic and the RSI indicators.





Having a good understanding of both trending and oscillating indicators will be a precious addition to any trader's toolbox.

Other methods used in technical analysis, include the use of price itself as an indicator, in which both horizontal and sloped support and resistance make for rich trading opportunities and sound risk management. Examples would be the head and shoulder pattern and the double top or bottom formations.

In the next chapters we will examine these features more extensively and learn various ways to incorporate them in our trading. First, let's look at the candlestick chart, as it is the key to confirming indicators and signals in general.

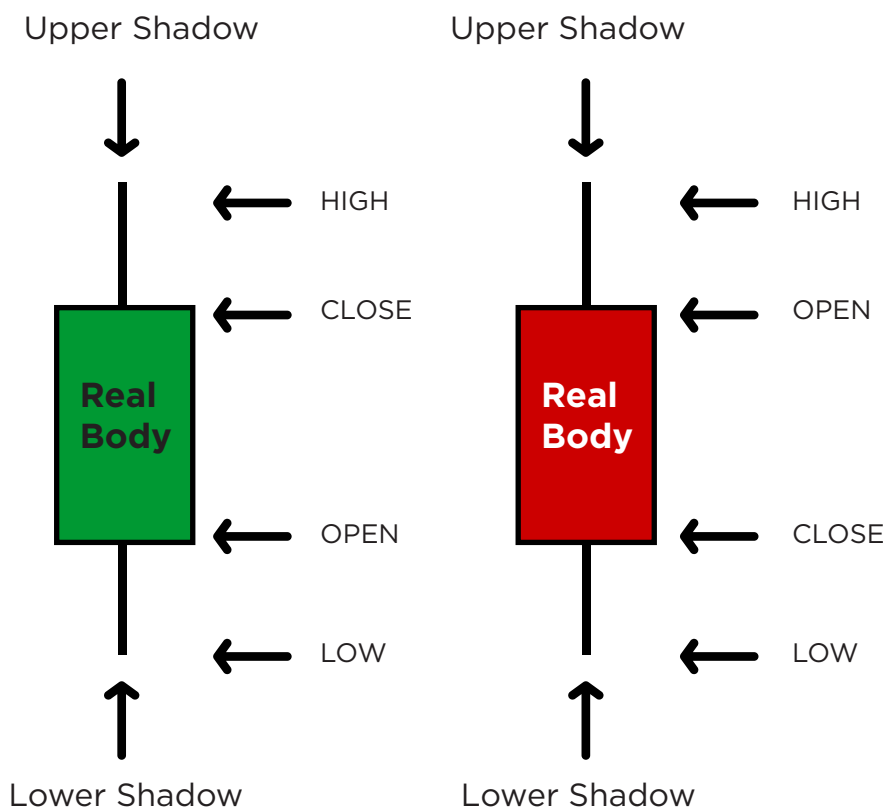
Candlestick charts show the open, high, low and close price for a specific time period. Expert traders prefer them because they deliver a much more graphic representation of price action.

The body of a candle shows the difference between the open price and close price. A bullish candle is one that closes at a price higher than that at which it opened and vice versa for bearish candle. In addition the candlesticks show us the highs and lows in the form of wicks and is what gives these bars their name.

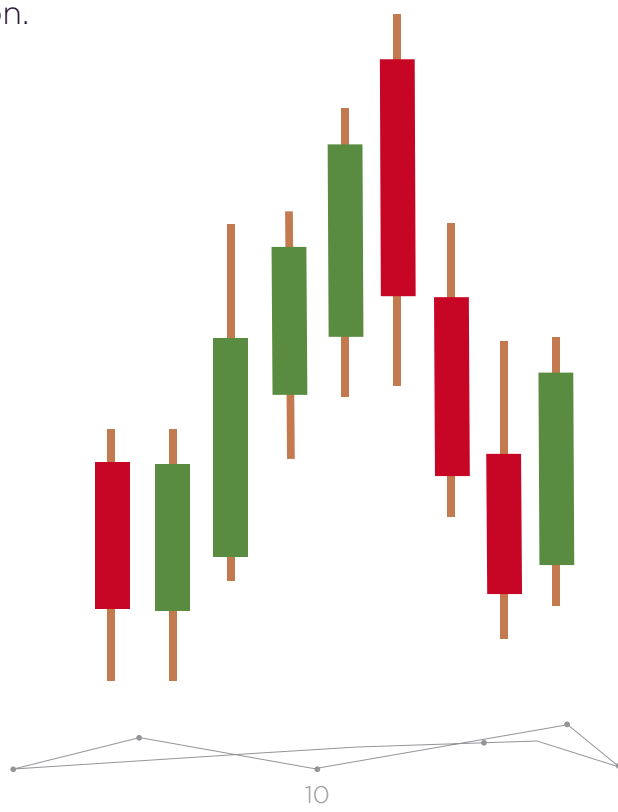
Candlesticks can be set up in multiple colors, to allow a trader to quickly visualize and interpret them, making them a great way for traders of all experience levels to analyse markets.



If we set **green** for candle stick closing up and **red** for candle sticks closing down, we can start to see how this may be the case:

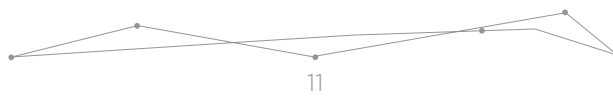


Note how the direction of price can easily be tracked, a series of green candles implies price is rising and the trend is UP while a series of red bars implies that price is falling and the trend is DOWN. Also, note that once a series in one direction is interrupted by a candle in the opposite direction, we usually have a reversal which is more likely longer than the original direction.





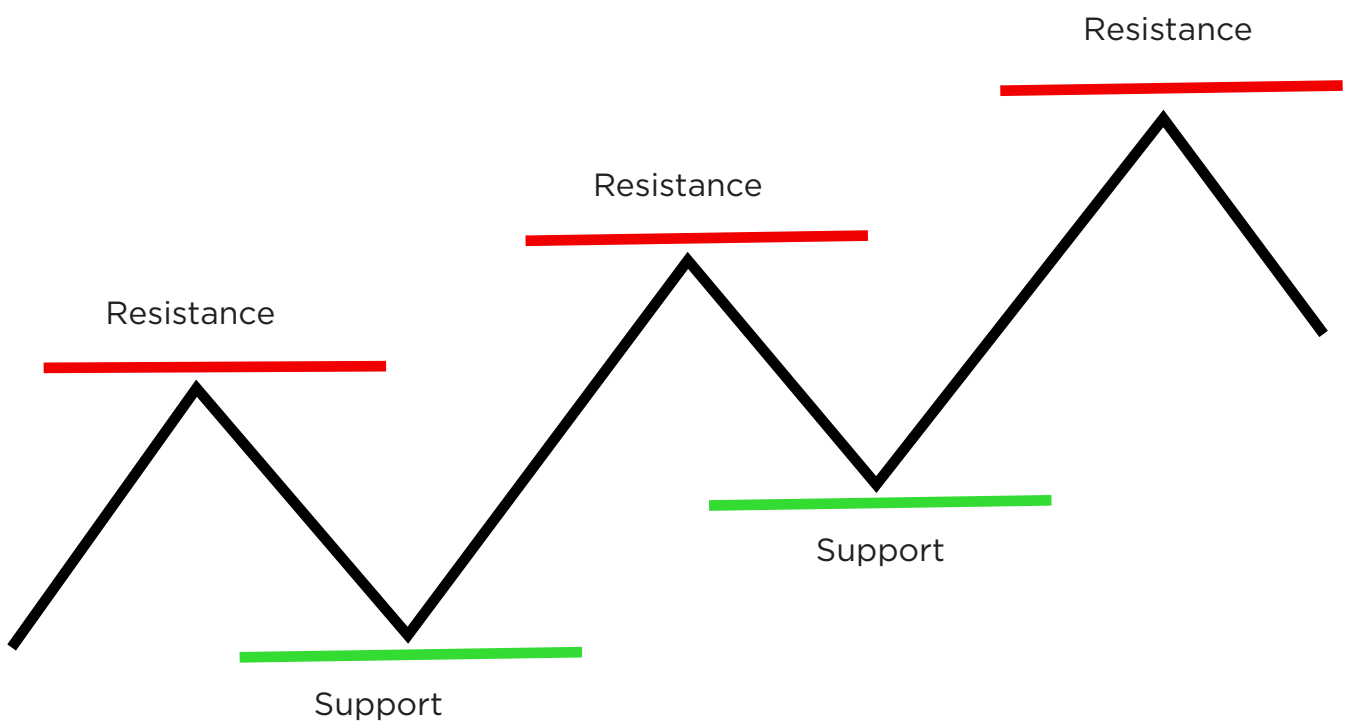
# **Support** and Resistance Levels



Support (S) and Resistance (R) levels are the changes in the balance of power between buyers and sellers. Support forms when selling pressure is suddenly stopped by buyers entering the market and exerting their own pressure.

Resistance levels form when buying pressure is suddenly stopped by selling pressure entering the market. In any market it is evident that prices move up, down or sideways as governed by support and resistance.

Technical analysts look for these areas to help identify potential reversal zones, thus offering a trader valuable tools in analysing markets as they look to predict price.

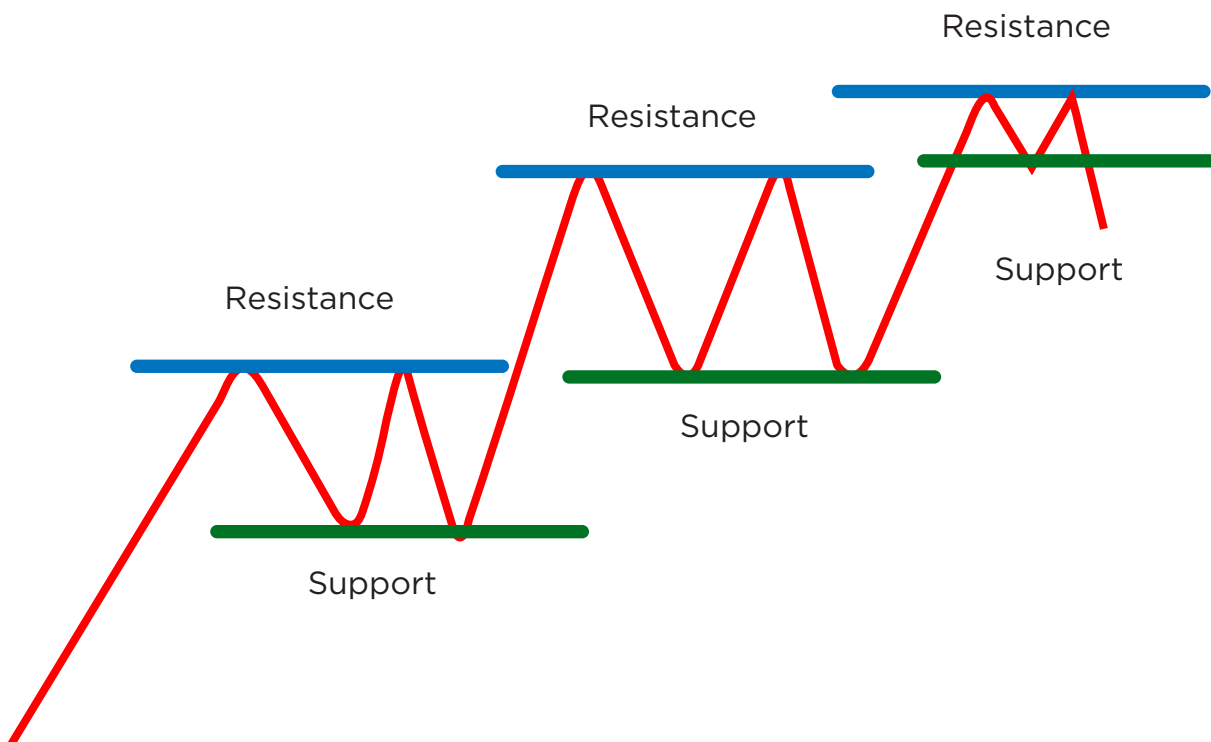




# Forms of Support and Resistance

## Horizontal SS and DD

Horizontal S & R occurs when price stalls at a similar price level two or more times. Horizontal support is the connecting of two troughs or lows which are at the same level. Horizontal resistance is the connection of two or more peaks which are at the same price level.

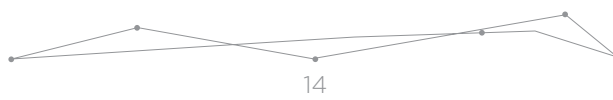


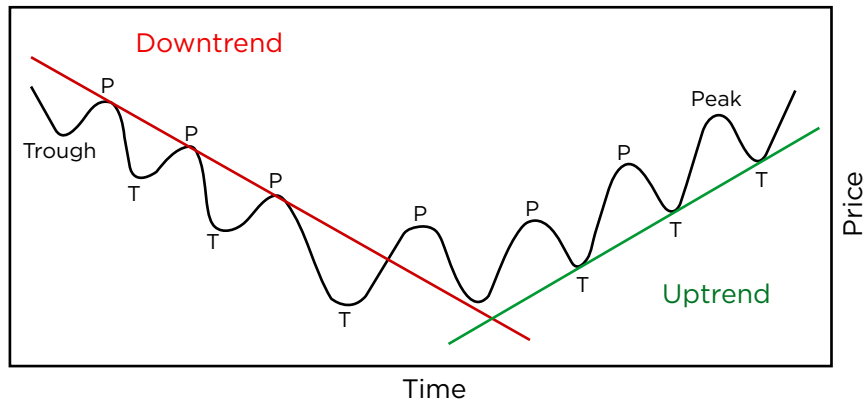
## Trend Lines

A trend line is quite similar to horizontal levels in that it is simply a line connecting troughs for support and peaks for resistance, except that the prices are not at the same level but rather at a slope.

An uptrend line is drawn along the bottoms (troughs) of clear support zones which price reacted at, and has an upward facing slope. A downtrend line is drawn along the peaks of clear resistance areas at which price reacted at, and has a downward facing slope. Trend lines are useful in identifying the trend and possible entry and exit points. Note that it takes 2 tops or bottoms to draw a Trend line but 3 to confirm it as a trend line that gets stronger the more times it successfully deflects price. Also, the steeper the trend lines slope is, the less reliable it is.

A smoother slope is more realistic and not easily broken.





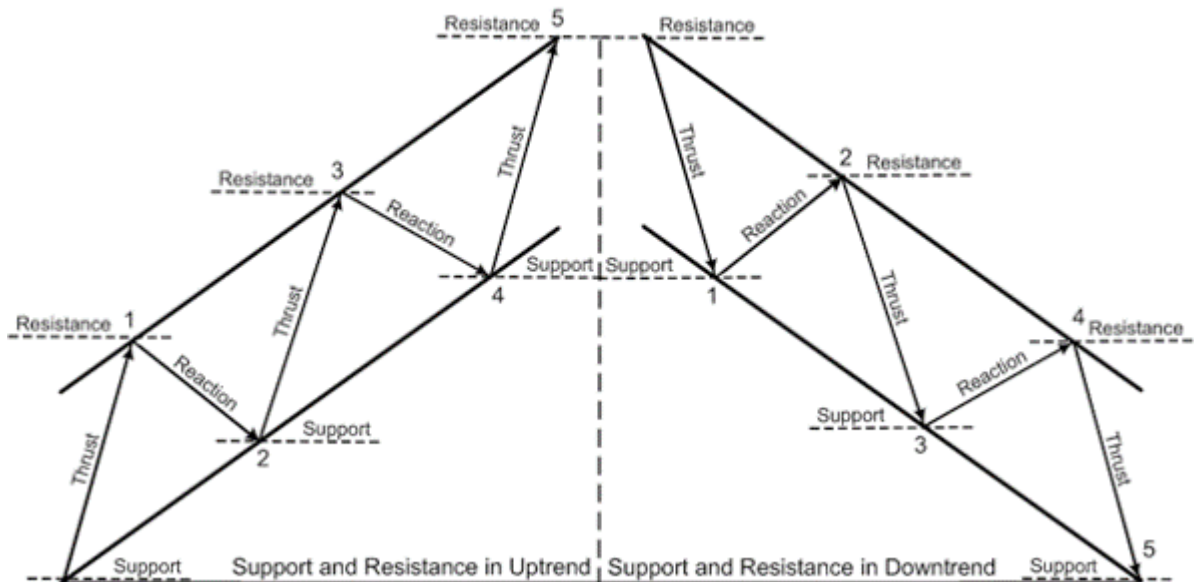
## Channels

Channels take the concept of Trend Lines and Horizontal S&R one step further to create an ascending, descending or flat channels in which a parallel line is drawn to the current support or resistance.

An ascending channel draws a parallel line to the uptrend and is used as resistance while the trend line is treated as support. A descending channel is the opposite, it is created by drawing a parallel line to the down trend and acts as support while the down trending line acts as resistance.

Sideways channels connect tops and bottoms of markets where price is trading in a range, with no real slope in price.

## Support and Resistance in Uptrend and Downtrend





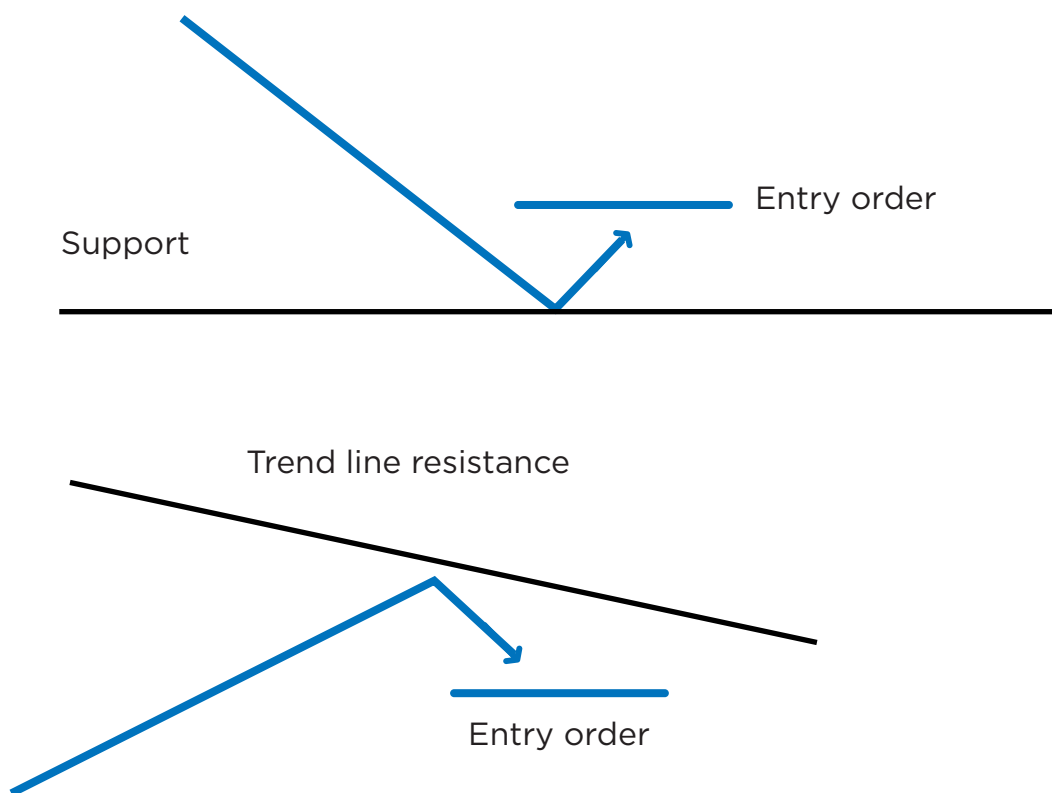
HOW TO TRADE  
**Support and Resistance**



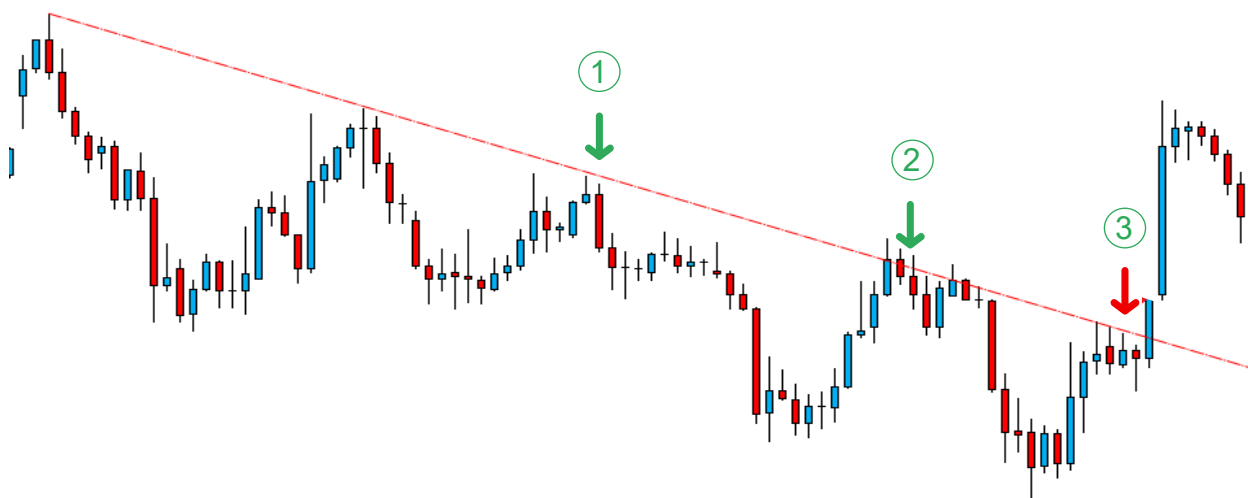
There are two commonly used methods of trading S&R, whether in the form of horizontal, trending or a channel. These are the bounce and the break out strategies.

## The Bounce Method

When using the bounce method, a trader effectively waits for the price to test a Support or Resistance level and enters when price fails to break the respective levels. The correct way to trade the bounce method, is to wait and see that price actually stops and the ss/rr has held. This is achieved by looking at how the price reacts at these levels before entering. In our chart we have a trend line resistance drawn, which connects two peaks and extends the line to the right. Every time the price approaches the trend line we expect a market reaction.

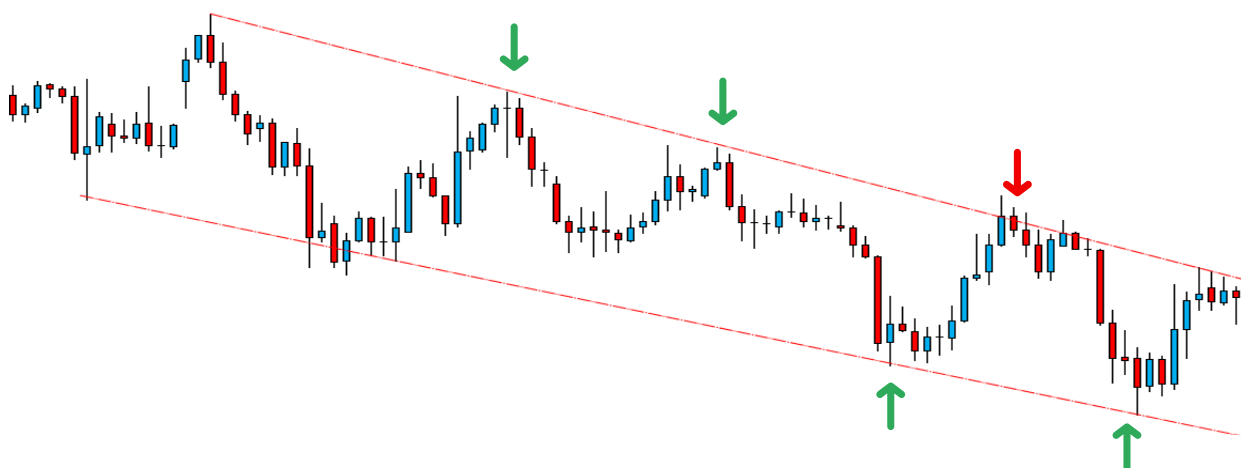


In the chart below, we see that the trend line has been tested 3 times. We would trade these retests by waiting for price to confirm that the market has stalled. This is evident by the change in colour of the candlestick, which is bearish (red) and has closed firmly in the opposite direction with small to no wicks. Upon confirmation, a trader will enter a position to the downside looking to take advantage of falling prices.



2 of the 3 trades were profitable.

Let us take our example one step further and mark out the channel created by price and sell the resistance and buy support as can be seen below. Note that we would have had two more profitable trades, as we would have entered buy positions on the test of the bottom line as the lower channel line acted as support and resulted in a directional change.



All in all we had 4 out of 5 profitable trades and one failed trade (the last sell). In the next chart we have horizontal S&R, we see that the same principles apply. Once a support or resistance zone is identified, we wait for price to retest the level, placing a trade once we get a confirming candlestick.

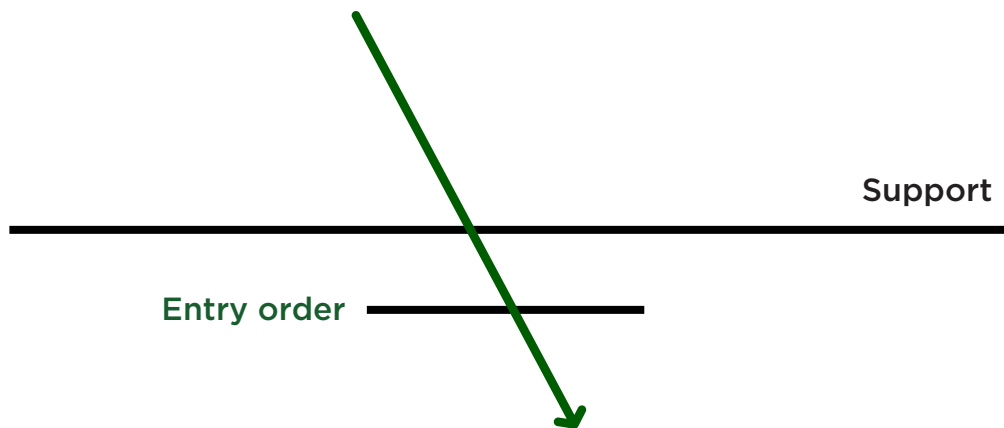




We had 6 consecutive winning trades in the previous chart with one losing trade. The losing trades in both examples bring us to the second method of trading support and resistance, the Breakout method.

### The Breakout Method

The breakout method is applicable when SS and RR is broken by strong price action.



An aggressive trader would buy or sell as soon as price breaks above or below resistance or support respectively. The problem here is that price might just spike through or the reverse, at the level (as indicated by the blue elliptical). Therefore the correct way to trade a break is to wait for confirmation in the form of a candle closing above resistance or below support and price moving beyond this close.



In this example, once the price closed above the trend line and the price moved above that candle, we would have a break out signal to the upside. We would enter a buy position looking to take advantage of a potential move up in price.

No matter what the type of support or resistance, one thing is always certain, the price will either bounce or break through at these levels. We have just seen how to trade both scenarios.

Maintain sound money management and follow the rules and you will be well on your way to a balanced portfolio.



# TRADING CHART PATTERNS



Chart patterns are the bread and butter of technical analysis. They offer good entry points with good money management and when traded correctly, hand in hand with support and resistance, can give a trader a significant edge over the market.

There are two main groups of chart patterns, each with their own characteristics. We will examine them one by one, along with suggestions on how to trade them.

### Group 1: Reversal Chart patterns

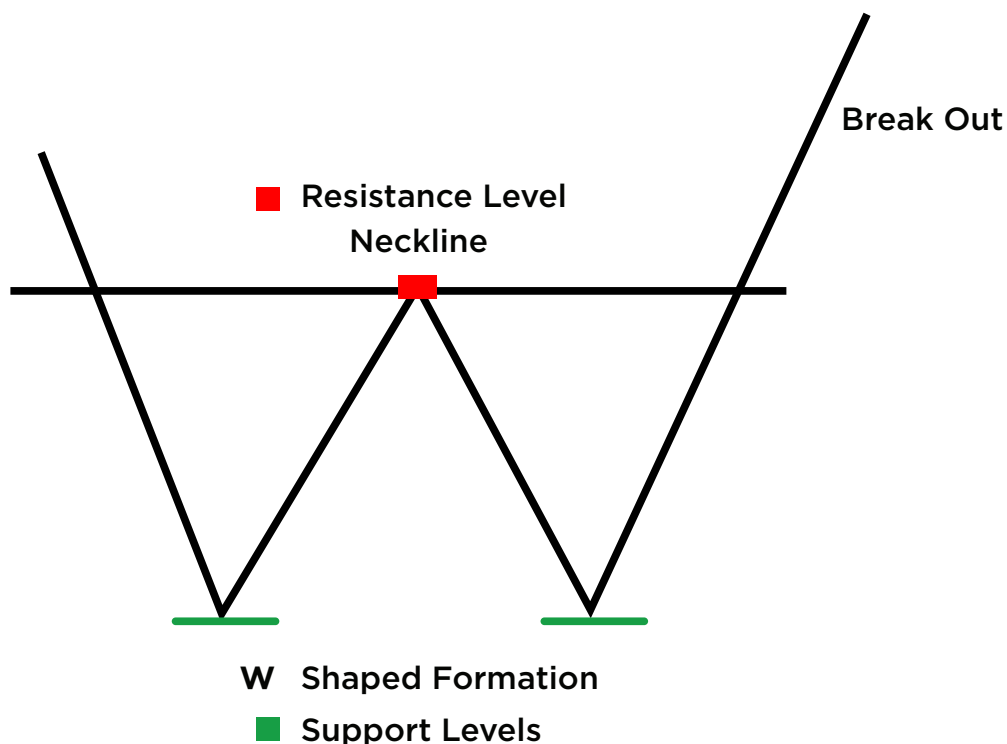
These patterns usually signal that an ongoing trend is coming to an end and a possible change in direction is about to occur.

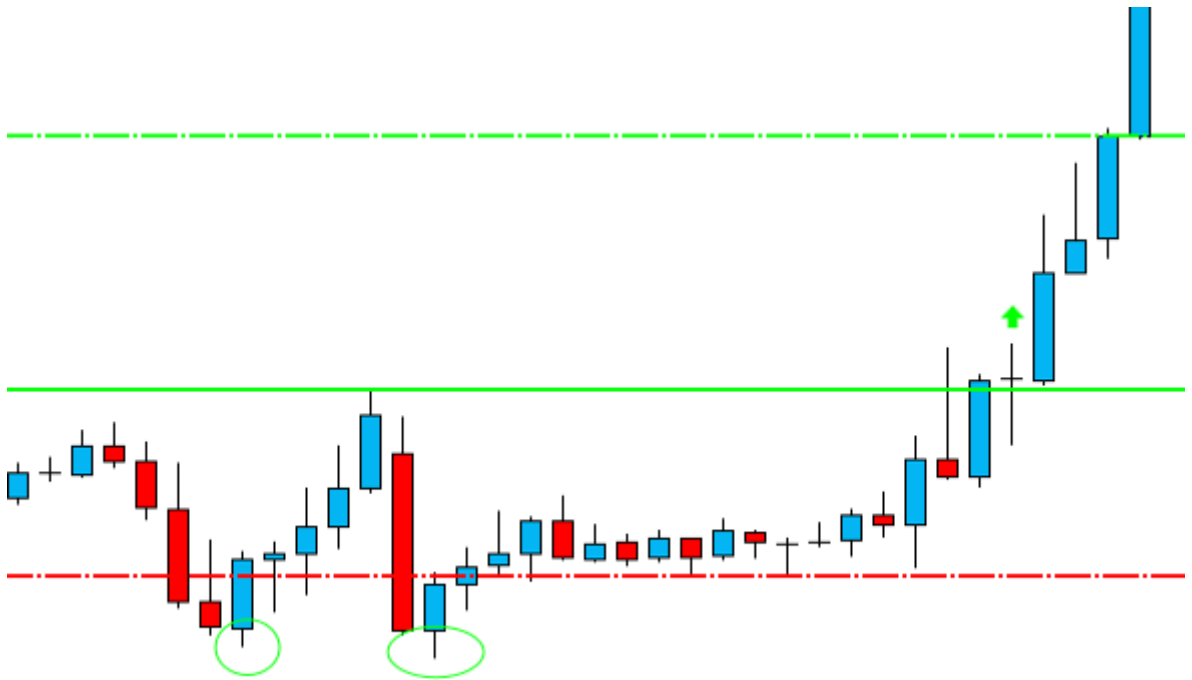
If a reversal pattern forms as the top of an uptrend, we will look to sell the asset once the pattern has completely formed. If the reversal pattern occurs at the bottom of a downtrend, we will look to buy the asset once the pattern completely forms.

The most popular reversal patterns are the double top/bottom and the head and shoulders patterns.

### The double top and double bottom pattern

A double top occurs when an upward trend is weakening, usually indicating that buyers are losing interest. Subsequently, the price falls below the low prior to last top, AKA the neckline (solid green line). Once the neckline is broken, a trader would sell the asset looking to capitalise on the expected move down.





A double bottom occurs when a specific support is tested at least 2 times and the market fails to break lower but instead breaks above the last swing high, AKA the neckline. Once the neckline is broken, a trader would buy the asset looking to capitalise on the expected move up.



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## Head and Shoulders

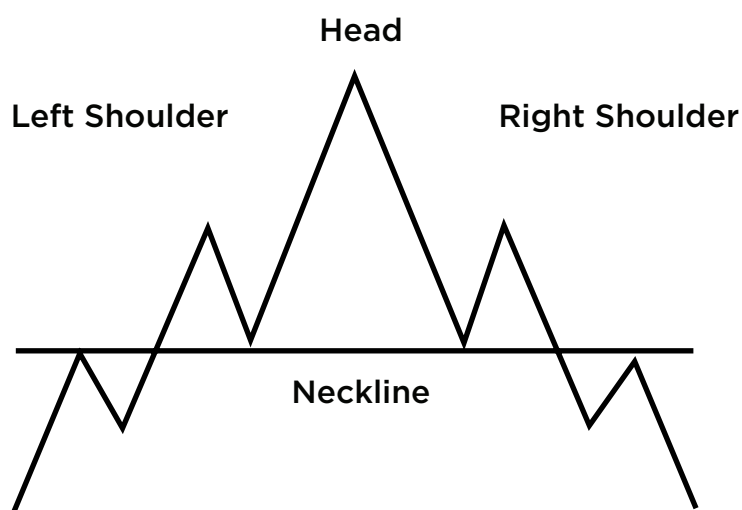
This reversal pattern gets its name from its distinct shape: a head with two shoulders, one on either side. It is especially reliable and hence popular with pattern traders.

### Bearish head and shoulders

A bearish head and shoulders is found at the end of an uptrend and signals a potential reversal.

It is characterized by price making a new high, failing to move higher, but instead falling below the last swing low before pulling up and making a failure swing below the last high and proceeding to fall below the last swing low or neckline.

The head is marked by the rectangle and the shoulders have been marked by the elliptical. Notice the neckline. It connects the two recent lows. Once the neckline is broken, we expect the market to continue down for at least the distance equal to the distance between the top of the head to the neckline.



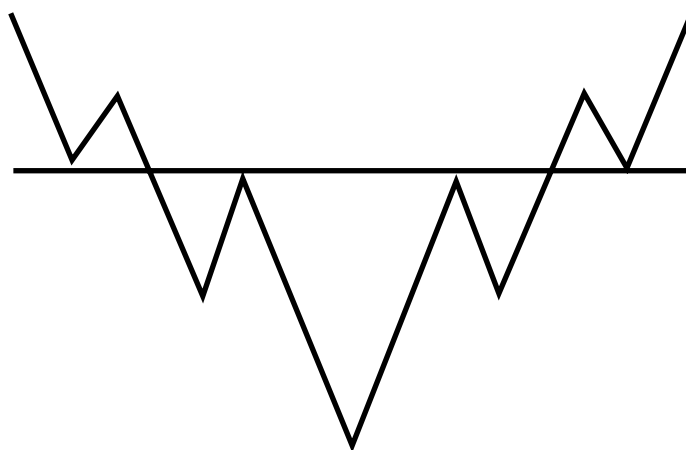
Once the neckline is broken, a trader would sell the asset looking to capitalise on the expected move down.



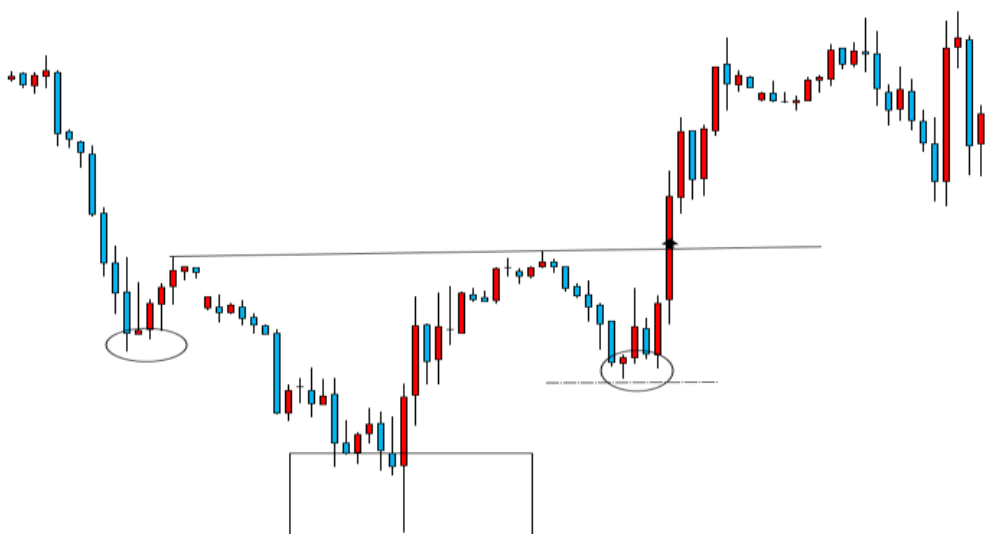


## Bullish Head and Shoulders

This is the mirror image of the bearish head and shoulder and forms at the bottom of a downward trend, where the price makes a new low. It then proceeds to trade above the recent swing high before pulling back to retest the low, only to form a false break out, as bears run out of steam. In this point, the market trades above the recent high confirming the pattern.

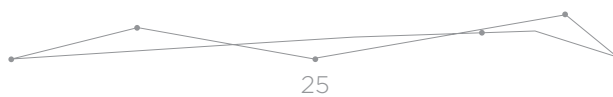


Once the neckline is broken, a trader would buy the asset looking to capitalise on the expected move up.



## Group 2: Continuation Patterns

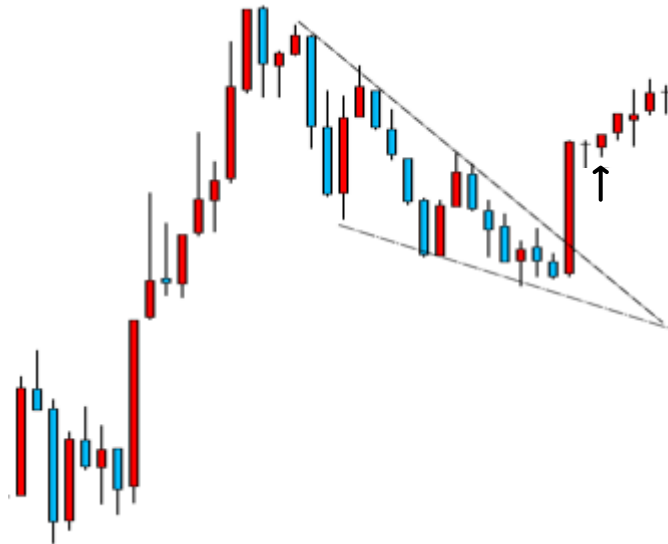
The next group of patterns we will look at, is the continuation patterns. These patterns signal that there is a high probability of price continuing in line with its previous trend. They are regarded as points of consolidation, where market forces gather strength to continue pushing prices in the direction of the prevailing trend.



## Wedges

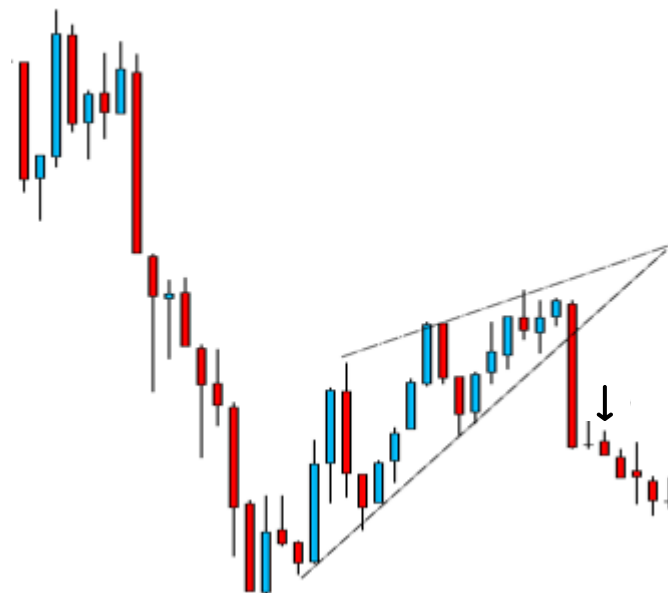
### Falling Wedge

A falling wedge is characterized by lower lows and lower highs, as can be seen in the chart. We join the highs and join the lows, and see that we have a wedge being formed. Because the prevailing trend prior to the wedge was up, we look for a break to the upside of the wedge to enter a buy position. Once a candle closes above the wedge's upper band, we will look to enter long positions thus a trader would buy the asset, looking to capitalise on the expected move up.



### Rising Wedge

This pattern follows the exact same principle as the falling wedge, except that it is located at the top of an uptrend and is characterized by the price making higher lows and higher highs, which when joined form an upward wedge. When the price breaks below the bottom boundary and closes, the pattern is signalling to go short. A trader would sell the asset looking to capitalise on the expected move down.



## Pennants

Pennants are similar to wedges in terms of entering positions but differ in that they are an ever narrowing channel in which price winds itself up until it is ready to break out.

### Pennants Up

As we can see from the chart, after the initial up move, price moves sideways in a narrowing channel until enough buyers enter the market for price to break out and move higher.

Once price breaks above the upper band and closes, we have a buy signal. A trader would buy the asset looking to capitalise on the expected move up.

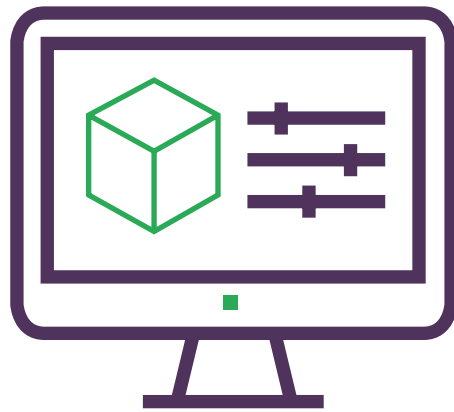


### Pennants Down

A pennant down is the same but to the downside, a move down in price is followed by consolidating price in a narrowing channel, before price breaks out. A candle closing below the bottom line triggers a sell signal. A trader would sell the asset looking to capitalise on the expected move down.



Practice, of course, makes perfect and spending time on understanding, identifying and trading these patterns correctly will benefit your trading and balance.



# OSCILLATORS



## RSI indicator

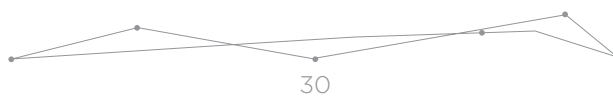
The RSI follows the same principle as the stochastic indicator. As we can see on the chart, every time the RSI crosses into overbought levels (above 70 in this case) the market has reacted by dropping in price and every time the RSI dips into oversold levels (below 30) the market reacts by increasing in price.

Again, confirmation using candlesticks is paramount, and together with prudent money management the RSI can yield significant returns.

Once the price moves up sharply and the RSI moves into overbought territory and crosses down (again, the price forms a candlestick that confirms this), we have a sell signal. A trader would sell the asset looking to capitalise on the expected move down.



Buy signals are generated when the price drops sharply and the RSI drops below 30, at which point price rebounds forming a bullish candlestick formation and the stochastic crosses back above the 30 level. A trader would buy the asset looking to capitalise on the expected move up.





# Bollinger **Bands**



Bollinger bands are used to measure market volatility, indicating whether the market is active or not. The Bollinger band forms a band surrounding the price and depicts the standard deviation of the price over a certain period. The BB can take the form of either a flat tight band, indicating quiet markets or as the sudden widening and steepening slopes indicative of an increase in market action.

The various forms and changes from one form to the next, give us valuable insight into how the price might react and into good entry points to take advantage of future price movements. On the chart we can see the BB in its two most useful forms: as a flat tight band indicating a quiet market (yellow) and the sudden widening and steepening slopes indicative of an increase in market volatility (red).



There are two popular methods of trading the BB, and you can experiment to create your own too.



## Bollinger Bounce Method

The first method is the Bollinger bounce method. This method relies on the principle that the BB acts as dynamic support and resistance and is best used in quiet markets when the price is ranging. Note how the bands have tightened and price fails to make significant higher highs or lower lows and the BB is acting as support and resistance.



The bounce method looks to buy support and sell resistance so long as the price is range bound and the slope of the BB is flat. A trader would sell the red arrows and buy the green arrows when wishing to take advantage of the moves down and up respectively.

## Bollinger Break Out Method

Notice how the bands have begun to widen and the price breaks away from the recent resistance line, this makes for the beginning of a break out trade and signals that the bounce method should no longer be used until market conditions stabilize again. For a break out trade, we require the price to break above recent peaks, turn around and find support at the level of past resistance. See the yellow circle.



Once the price finds support and breaks above the previous high, a trader would buy the asset looking to capitalise on the expected move up.

The Bollinger band's bounce and break out methods serve important roles in any trader's toolbox and can be used on a standalone basis or in conjunction with other tools, to maximize your trading profits.



# Moving Averages



A Moving average is a tool used by traders to smooth out the prices. This is achieved by plotting the average price of an asset over a selected period of time. The slope of MA and their position relative to the current price and other MA, is used in forecasting whether an asset's price is due to move higher, lower or sideways. Luckily for us, the platform plots these options automatically and all we need to do is select which MA to use, and which periods we want to see.

The most widely used MA are the simple and exponential. It is best that you experiment with different combinations and types, until you find one that suites you for a specific market condition. Trading a cross of the moving averages involves 1 MA and price of several MA.

### Moving Averages Cross By Price

Below we have a 10 period MA. We see two instances where price crosses the MA. The first is a bullish cross which would signal a buy and the second is a bearish cross which would imply a sell. For the bullish cross, we first wait for price to close above the MA break above the previous high before entering a buy position to take advantage of a potential move higher. For the bearish cross, we first wait for the price to close below the MA and enter a sell trade on the break of that low in anticipation of a move lower.

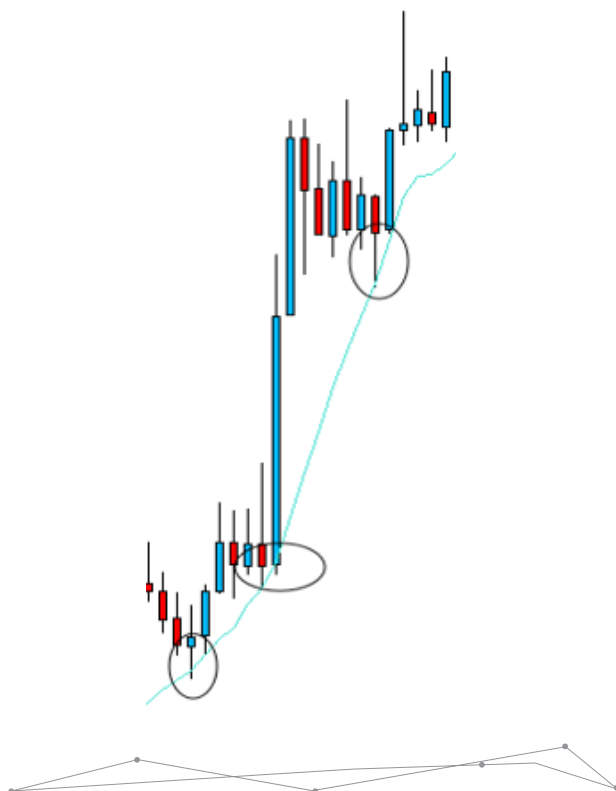


### Moving Averages Cross by Moving Averages

Here we have the 10 period MA and the 50 period MA plotted. We see the price cross below the 10 MA and then the 50 MA followed by the 10 crossing below the 50. A more aggressive trader would enter a sell position as soon as both have crossed below the 50, while a more conservative trader could wait for the 50 to be retested by the price, and sell the close below the 10 MA which occurs after that (see arrow).



Crossover trading works well in trending markets but can lead to false signals being generated by indecisive ranging markets, which would cause the fast MA to crisscross the slow MA until direction is established. For that reason, MA cross should be combined with candlestick confirmations.



Notice how the price came down and tested the MA 3 times. On all 3 occasions the price continues in the direction of the trend as the MA supported price.

Below we see that MA can act as resistance too, the price tested the MA 4 times but failed to break through as it continued to trade lower.



These tests of the price can be traded on their own. Simply enter a trade to sell if the MA are acting like resistance and enter a buy if the MA are acting as support. In the first example, where the MA is acting as support, a trader would buy the asset looking to capitalise on the expected move up.

In the second example, where the MA is acting as resistance, a trader would sell the asset looking to capitalise on the expected move down.

A more conservative trader would wait for confirmation that the level will hold and only enter a position once a candlestick formation confirms the reversal at the MA.

There are many MA which you need to experiment with in order to find the ones fit for your trading style. MA's can be indicative of current and future trends and be used to trade trend continuations and trend reversals. When traded correctly, MA are a valuable tool that will have an important role in your portfolio's advancement.



# HOW TO TRADE **on the News**



News plays an important role in determining the demand, supply and subsequently the price of an asset. For this reason it is important to know when and how to trade these events. All market participants are keeping an eye on news releases throughout the day, and fortunately most major releases have predetermined times and dates for when they are released allowing traders to know when to focus their energies on news trading. News trading has many pitfalls that new traders may fall into, if proper money management is not applied.

The first step is to identify the right news event for the right asset. High volatility news events such as central bank announcements, inflation figures, labour figures, trade figures and growth figures are best, and it's generally better to trade releases of major economies. These events are likely to be the most liquid and thus less likely to lead to liquidity drying up. In addition, you have to decide whether you follow one of two methods when trading the news: directional bias or non directional bias.

### Directional bias

Directional Bias requires that you have a good understanding of current market conditions and trading news releases that are in line with your medium to long term outlook. For example: if the NFP (Nonfarm Payroll) was due to be released and we are looking at the EUR/USD. We can see that the asset has been sold off in recent trade and know that, should the NFP be better than expected, the asset is likely to fall further as the USD strengthens. Therefore, we look at the most recent highs and lows and draw horizontal lines here. These are our breakout points. If the news is worse than expected and price breaks above the upper band (green) we do nothing because the move is against our directional bias. However if the news is good and this is confirmed by the assets price falling below our breakout point (red) there is a high probability that the asset will continue to fall. Therefore, a trader would sell the asset looking to capitalise on the expected move down.



## Non directional Bias

This approach is similar to the directional bias method. We merely trade either the break of the green line or the break of the red line without any bias for either direction.

If the news was bad and the price broke above the upper band, a trader would buy the asset looking to capitalise on the expected move up.

If the news was good, a trader would sell the asset looking to capitalise on the expected move down.

While non directional biased might ensure you catch all moves from all news events, it has its drawdowns. It can often result in a lot more fake signals than the directional biased method.



Overall, understanding the factors which move markets and why they do so is an invaluable tool for all traders. Whether you apply a directional or non-directional approach, both have their advantages and disadvantages and it is up to every trader to properly plan trades and apply the appropriate money management so that downside risk is limited and upside potential is maximized.





# Conclusion

There's no better way to learn how to trade using indicators than simply - trading. If you've implemented some methods while reading this eBook you already know that, just like every business, each day is a new opportunity to earn (or lose) and the parameters that affect your opportunities are numerous and diverse. In this volume we talked about indicators and patterns.

In volume 2 we will learn how top traders and brokers use them to create world renowned strategies. We will give you a detailed overview of these famous strategies and tips on how to implement them in your trading.