7 trading secrets: Techniques used by professional traders to make money.

An E-book by

FibForex123

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Sunil Mangwani is CEO of "Fibonacci Forex" & co-founder of "London School of Financial Trading", an institute dedicated to provide world class education & proprietary trading strategies, to succeed in the financial markets.
He has been trading the forex market for more than a decade and is widely respected for his vast knowledge & in-depth study in the field of technical analysis and Harmonic trading.

Sunil specializes in trading with price action and Fibonacci ratios. He uses the Fibonacci ratios to effectively trade advanced chart patterns such as Divergences, Wolfe Waves and Harmonic Patterns.
He trades these patterns on the live markets, with a consistently profitable performance, and his personal mentorship program has benefitted a large number of traders - http://www.fibforex123.com/Personal_Mentorship.html

Over the years of trading, he realized that applying technical analysis is not enough to be a successful trader. A trader can succeed if has an iron clad "Trading Plan" & he mentors' traders on how to prepare a plan with his concept of **3M's (Money, Mind & Method)**
His personal mentorship program has inspired many people to take up full-time careers in forex trading.
He conducts live trading sessions & holds regular workshops in London and webinars on a range of strategies that he has developed.

Sunil is a renowned speaker and has participated in various conferences and trading expo's such as the "Asian Trader & Investor Convention" (Mumbai, India); "The International Traders Conference (ITC)" (Barcelona, Spain); "The London Investors Show"; "The Forex Expo (Moscow) etc.
He also conducts specialized workshops on technical analysis for select group of traders all over the globe.

He was interviewed recently in the 'Traders' magazine, where he described his techniques –

http://tradersonline-mag.com/01_ezine/01_traders/en/2012/09/index.html

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Introduction.

Hello once again & we are back with some more trading secrets.
In the first E-book, published for the 'World Money Show – London 2012' we talked about the process of trading.

In this E-book, we will take the trading process one step further & implement it in our trading.

Most traders tend to look at techniques/strategies/signals to trade & completely ignore the other 'crucial' factors, which we covered earlier.

If you had read the first E-book, I am sure it must have made a positive impact on your trading & we are now ready to move to the next level.

In this book, we will examine the techniques/factors used by professional traders to succeed in the markets, which should give you the required edge.

The information covered here is more technical in nature, as I have blended the earlier 'crucial factors' with technical analysis.
The intention once again, is to make the information practical.

Simply put, how does a trader apply this crucial information to real life trading?

Understanding the important factors to succeed in trading is certainly beneficial. But it does not hold much value if you cannot implement the same in your trading.

Let's be straight - you are not in college to learn a course, but to make money from trading.

Thus, if I did not give you the means to implement the knowledge, I would be wasting your time….and mine.

Understanding the process of trading – basically buying & selling.

Let us examine the simple process of trading.
This basic fact applies to any financial instrument – stocks, commodities, currencies, indices etc, but we will concentrate on the forex market.

A trader intends to buy a currency at a certain price & sell it at a higher price to make a profit.
Or sell at a certain price & buy it at a lower price to make a profit.
Isn't this exactly what we do as traders?

Now if a trader intends to buy at that particular price, there has to be some other trader(s) willing to sell it.
And subsequently, when the trader decides to sell the same, there has to be another trader who is willing to buy it.

Thus, a trader is actually trading other traders.

Now this is the simple fact, but a very important one.
Most traders get so caught up with the technical analysis, charts, signals etc. that they do not dwell on this truth.

To underline the importance of this fact, let us look at a situation.
Let us assume 'Trader.A' wants to buy the EUR/USD which is rallying. Since the value is rising, he would want to buy it, with the expectation that he will sell when it reaches a higher price.
Now let me ask you a very simple question.
If everyone is thinking along the same lines, why would someone want to sell it?
Ah, ha…got you.

But since 'Trader.A' is able to buy it (along with many traders who join in this anticipated rise) we can safely assume that there are as many traders who selling.

So, let's say we have 'Trader.B' who is ready to sell to 'Trader.A'.
Now why would 'Trader.B' want to give up on expected profits?

There can be two reasons –
- 'Trader.B' has already made profits.
- 'Trader.B' anticipates that price will not rise any further.

Out of these, one person will be wrong & lose money.

The fact is that 15% of the traders make money…..which comes from the 85% who lose.

What I want to do is examine the markets from the view of these 15% whom we can call the professional traders.

Bottom line – As a trader, you must look at trading from a different perspective, beyond the mere indicators on the chart & learn to think like the professional trader.

Professional trading fact.1

Trade price action & not indicators.

Most new traders think that trading with indicators is the ticket to success.
In fact, the more the better & I have seen traders with at least 10 different indicators on their charts.
But ultimately price is king & all indicators are lagging.
The fact is price movement causes the indicators to move, so why would an indicator give a leading indication of expected price movement?

While this does not throw the indicators out of the window, one should primarily concentrate on price movement & use indicators in a secondary role.

As they say, a picture is worth a thousand words & I am enclosing a series of charts proving this point.


EURUSD,M15 1.29617 1.29641 1.29616 1.29628
2
Trade gets stopped out
Stopped out
Sell
Stoch(9,5,5) 49.4346 70.5291


EURUSD,M15 1.29617 1.29641 1.29616 1.29627
3
Trader sells again, identifying a bearish divergence & the crossover of the stochastic lines.
Sell
Stoch(9,5,5) 49.2730 70.4968


EURUSD,M15 1.29617 1.29641 1.29616 1.29630
4
Price moves in the traders favor & ideally some profits should be taken at this stage.
But most traders do not have a plan & they want to recover their previous loss.
Hence they would let the trade run with the hope of further profit
Sell
Profit ????
Stoch(9,5,5) 49.7577 70.5937


EURUSD,M15 1.29617 1.29641 1.29616 1.29630
5
Price turns yet again, thus turning a potentially profitable trade into another losing trade.
Stopped out
Sell
Stoch(9,5,5) 49.7577 70.5937

Bottom line – Do not trade exclusively with indicators. Understand price action, as it gives you enough clues.

Professional trading fact.2

Multiple time frames

To become a proficient Forex Trader, it is essential to be able to plan and takes trades within the context of higher time frames.

The professionals look at multiple time frames which give them a good feel where a currency's price might go to & where any counter trend moves might retrace to.
This gives a feel for the trend on different time frames.

One can thus determine whether the trade is a trend trade or a counter trend trade & manage it within the context of the larger picture.

But the most common dilemma is - which time frame is suitable for the correct analysis? Different time frames tend to give different trends which leads to confusion.

This is where the 'Rule of 3' helps to get the correct picture. It simply says we should refer to 3 different time frames to get a correct picture.

We should ideally select the time frames which ***DO NOT*** give the same picture.
For instance, the 15min & the 30min time frames would generally show similar price movements & trends.

Basics of 'Rule of 3" - Ideally one should look at 3 different time frames, for different perspectives, to determine the correct larger picture.

The 'holding time frame'
The first step is to define the 'holding time frame'
The time frame that you are trading on; where you have identified the setup conditions, is defined as the 'holding time frame'

Rule of 3

1. **Identify the setup conditions of the technique on the 'holding time frame'.**
2. **Look for support/resistance levels at the next higher time frame.**
3. **Identify the trend on the second higher time frame.**

Let's put this into perspective for the MT4 platform.

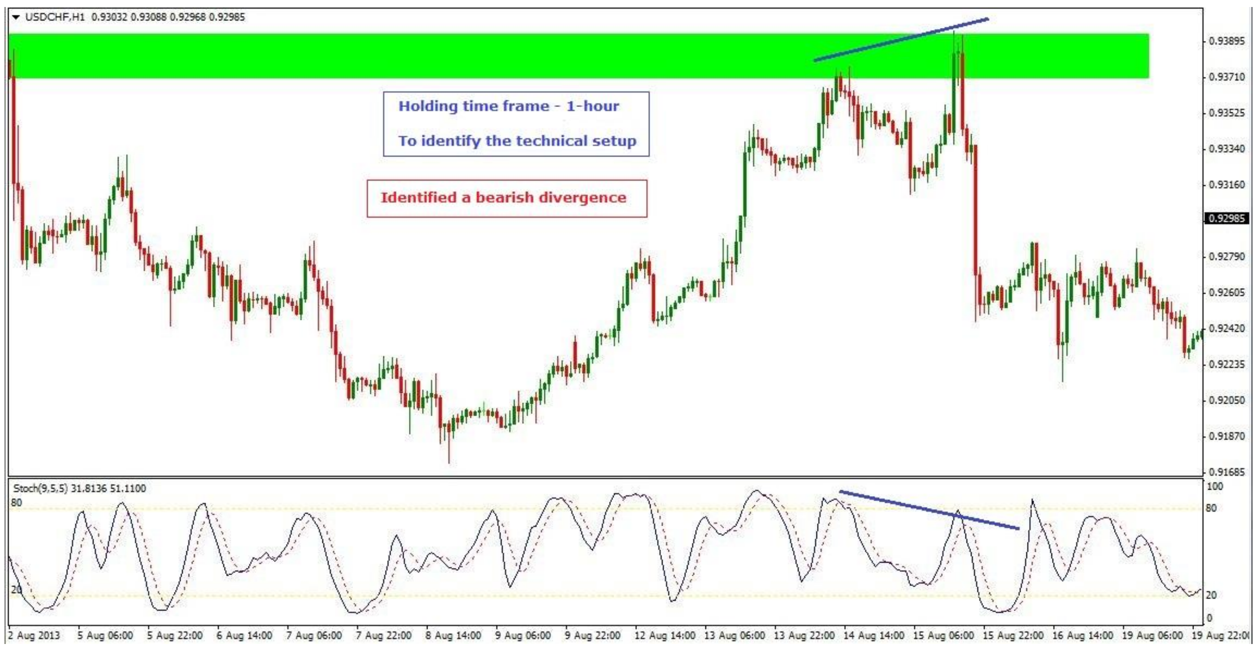
If you are trading on the 1-hour time frame (which means that you would be identifying your technique on this time frame) then the 'rule of 3' would be –

- 1 hour – holding time frame.
- 4 hour – look at this time frame to determine support/resistance levels.
- Daily – look at this time frame to identify the trend.

This can be applied to different time frames, but it's important to follow the same rules.

I have enclosed some chart images with these concepts.

An important point to note in these charts is I have not plotted any indicator on the higher time frames. These are used specifically to identify the trend & support/resistance levels, for which we do not need indicators.




USDCHF,H4 0.93094 0.93112 0.92948 0.92985
Next higher time frame - 4 hour
To identify support/resistance levels.
Confirms the bearish setup of the 1-hour, since we have a strong resistance zone.


USDCHF,Daily 0.93078 0.93310 0.92874 0.92985
Second higher time frame - Daily
To identify the larger trend
Price is in a bearish trend, thus increasing the probability of the setup on the 'holding time frame'.

Professional trading fact.3

Support & Resistance levels / Supply & Demand zones

The support and resistance levels are very important in terms of market psychology and supply and demand. In fact, I would state that these are crucial levels & the knowledge (or the lack of it) is often the difference between success & failure.

In simple terms, support/resistance levels are the levels where a number of traders are willing to buy the currency (in the case of a support) or sell it (in the case of resistance). When these levels are broken, the supply & demand and the psychology behind the price movement is thought to have shifted, in which case new levels of support and resistance will likely be established.

Once a resistance or support level is broken, its role is reversed. If the price falls below a support level, that level usually becomes resistance. If the price rises above a resistance level, it will often become support.

But the most important point is to see these support/resistance levels as supply & demand zones.

Let me quote a professional trader & a very close friend - Sam Seiden - who defines this very precisely –
"Price movement in any and all markets is simply a function of an ongoing supply and demand relationship."

The professionals simply identify the Supply & Demand zones, enticing the novice traders to make mistakes….and thus lose money.

Let us go back to the previous example of 'Trader.A' and 'Trader.B'

I would classify 'Trader.B' as a professional trader, since the actions of 'Trader.A' are similar to those of the common crowd.
Most novice traders want to get into a trade, simply because price is moving & they fear being "left out".

Now have a look at the chart used earlier in the 'indicators' section.

'Trader.B' would have seen the larger picture & identified the strong 'support turned resistance' zone above.
He is well aware, that this is an area where supply exceeds demand & he would want to sell.

'Trader.A' on the other hand, is blissfully unaware of this fact & is buying into resistance.

Is it surprising that 'Trader.A' loses money….consistently?

Professional trading fact.4

Money Management

Money Management is *THE most crucial aspect of trading*, which ironically, is ignored by most traders.

Let me re-iterate the concept of 3M's.
The statistics say that app. 85% of traders lose money in forex trading & in my opinion, the ultimate cause of failure is the lack of awareness of 3M's which are "Money, Mind & Method" ...in that order.

If we distribute the 3M's on a scale of 10, then
Money – the 'money management' would constitute 5 parts.
Mind – the 'discipline & patience' would constitute 3 parts.
Method – the 'technical analysis' would constitute 2 parts.

Thus, supporting the fact that Money Management is priority no.1

The first priority of a trader is to conserve the capital.
The trader's capital is his bloodline. Without it, one cannot trade, so preserving it becomes a matter of utmost importance.
A single loss is not only a loss of capital; it also puts a trader two steps behind in the quest to profitability. **This is because the percent gain needed to recover from a loss increases geometrically with every loss.**

A sound 'Money Management' policy is based on 2 simple concepts –

- The proper Risk-to-Reward ratio. One must always keep the Risk-to-Reward ratio at a minimum of (1: 3)
- Correct Position sizing, where the "Position sizing" simply means the amount of capital that a trader should risk on any trade. The Golden rule for the ideal "position sizing" is -"Never risk more than 2% of your trading capital at any time.

While describing these 2 concepts in detail is beyond the scope of this book, it is sufficient to say that without proper money management, the traders account cannot grow.

Professional trading fact.5

Stop loss

Taking a trade without having a stop loss in place is like walking a tightrope without a safety net. A trader may be skilled enough to go on, but one loss may be enough to blow the account.
I have heard counter arguments about stops being counter-productive, brokers hunting the stop levels, maintaining mental stops etc. But the importance of maintaining a stop level overrides everything.

Now our prime objective as traders is to control risk.
And thus, the stop loss becomes absolute essential.
But again, it should be done professionally.

The most important principle is that the stops should never be mere dollar values stops, but technically correct stops.
Which simply means that one cannot decide on the stop level based on his/her personal risk level. A trader cannot decide the stop level by saying that "I am going to risk only $50 for the trade".
The market does not care about your risk levels but respects the technical levels. Hence a stop must be at a technical level....*regardless of how far away it is, from the entry*.

If one does not follow this simple rule, the "comfortable" dollar values stop would probably get stopped out more often, which defeats the very purpose of placing a stop.

Following are some facts used by professional to set stops for long (buy) positions.

- Use previous support/resistance zones to determine the stop levels.
- Use Fibonacci ratios or Pivot levels to determine stop levels.
- Set the stop just under yesterday's low unless yesterday was a big up day. Then move the stop closer to today's open.
- Use the daily Average True Range to determine the expected movement for the currency and set the stop just beyond the range amount.
- Move stops up as the price rises, first to break even, then to protect profits. On a long position when you use trailing stops, don't lower stops - only raise them.
- As the price moves up and tends to "top out" or market conditions become unfavorable, "tighten the stop." In other words, move your stop closer to the current market price. Doing this will effectively employ an "up or out" strategy" - either the price goes up, or you are out of the trade.

Using the previous divergence trade once again, the following chart shows the ideal place to place the stop loss.

Professional trading fact.6

Trade Plan –

I get a lot of questions from traders who are not satisfied with their trading & wish to achieve better results.
My first question is always – Do you have a Trade Plan & are you following it?
Most of the times, the answer is no & my first suggestion is "prepare a plan & follow it".
This by itself makes a large difference.

Professional traders always have a precise Trade Plan, which describes the entry, stop & exit levels of a trade, money management principles & rules of trade management.

The most important point is that these are defined BEFORE they enter a trade.

But let me re-define the ultimate goal of a Trade Plan.

Emotions play a huge role in trading & we know that the market moves mainly due to the 'fear & greed' of the traders.
We are all human & by nature tend to hesitate or second-guess our motives or tend to 'jump the gun' by entering too early. These traits become further magnified when our money is on the line.

The primary reason for a specific trade plan is for the trader to follow it…. without any hesitation.
If the particular setup conditions of a trade plan are fulfilled, a trader must take the trade…. regardless of the outcome.

The trade could be profitable or could turn into a loss, but that outcome should not keep us from getting into the trade.

As a trader, you are here to trade. Once your setup conditions are satisfied, trade you must, as per the plan.

Thus, the most important aspect of a Trade Plan is to keep the emotions at bay.
One must have a Trade Plan that one can follow mechanically, without second guessing the setup conditions or motives.
It should be brief yet precise, like if condition A is satisfied, then we take step B.

Professional trading fact.7

No setup, no trade.

Professional traders always follow this part of the Trade Plan.
They define the parameters which will allow them to take a trade & will not enter a trade unless these parameters are fulfilled.

Let me give you a real example of this
One of my 'students' trades with a single setup – a Reversal bar on the Daily & Weekly charts.

He has a full-time job, hence can devote only a small time to forex trading. Thus, he has chosen this technique as he is required to look at the charts once a day.

Now on an average, he gets one trade a week & sometimes even one trade a month. But he is making consistent profits & his account grows steadily every month.
I would put down his success to the simple fact of following the Trade Plan.

The 'Trade Plan' for this particular setup has certain conditions for a candlestick to "qualify" as a 'Reversal Bar'
Thus, he may not get a higher number of setups & may even miss out a few good moves. But when these conditions are fulfilled, the probability of success is very high.

The basic idea of imposing conditions is to eliminate the possible "unsure" trades.

I would rather trade once a week on a high probability trade, than trade 5 times a week with lower probability trades. As they say, "staying out is also a position".

Let me re-iterate this with a saying –
"I would rather be out of the trade, wishing I was in it; then be in a trade, wishing I was out of it. "

I do hope these essential facts help to improve your trading.
I have personally seen the benefits of these crucial facts with the countless number of traders who have followed these.

To be very honest, these are the principles by which we trade our accounts.

We practice what we preach, and I will offer to share these principles only if they work.

Our Personal Mentorship program has benefitted a large number of traders -
https://www.fibforex123.com/personal-mentorship

You can contact us for further details
https://www.fibforex123.com/

Happy Trading.

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