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# Sharpen Your Trading Skills



David Chia  
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# 1 The Top 10 Mistakes Traders

## Make and How To Avoid Them

Achieving success in forex trading requires avoiding numerous pitfalls as much, or more, than it does seeking out and executing winning trades.

Following are 10 of the more prevalent mistakes I believe traders make in forex trading.

This list is in no particular order of importance.

### **1. Failure to have a trading plan in place before a trade is executed.**

A trader with no specific plan of action in place upon entry into a forex trade does not know, among other things, when or where he or she will exit the trade, or about how much money may be made or lost. Traders with no pre-determined trading plan are flying by the seat of their pants, and that's usually a recipe for a "crash and burn."

### **2. Inadequate trading assets or improper money management.**

It does not take a fortune to trade forex markets with success. Traders with less than \$5,000 in their trading accounts can and do trade forex successfully. And, traders with \$50,000 or more in their trading accounts can and do lose it all in a heartbeat. Part of trading success boils down to proper money management and not gunning for those highly risky "home-run" type trades that involve too much trading capital at one time.

### **3. Expectations that are too high, too soon.**

Beginning forex traders that expect to quit their "day job" and make a good living trading forex in their first few weeks of trading are usually disappointed. You don't become a successful doctor or lawyer or business owner in the first couple years of the practice. It takes hard work and perseverance to achieve success in any field of endeavor -- and trading forex is no different. Forex trading is not the easy, "get-rich-quick" scheme that a few unsavory characters make it out to be. You must have your own plan and have a precise trading system, then you practice for a few months before you can actually win in trading forex.

### **4. Failure to use protective stops.**

Using protective buy stops or sell stops upon entering a trade provide a trader with a good idea of about how much money he or she is risking on that particular trade, should it turn out to be a loser. Protective stops are a good money-management tool, but are not perfect. There are no perfect money-management tools in forex

trading.

### **5. Lack of "patience" and "discipline."**

While these two virtues are over-worked and very often mentioned when determining what unsuccessful traders lack, not many will argue with their merits. Indeed. Don't trade just for the sake of trading or just because you haven't traded for a while. Let those very good trading "set-ups" come to you, and then act upon them in a prudent way. The market will do what the market wants to do -- and nobody can force the market's hand.

### **6. Trading against the trend--or trying to pick tops and bottoms in markets.**

It's human nature to want to buy low and sell high (or sell high and buy low for short-side traders). Unfortunately, that's not at all a proven means of making profits in forex trading. Top pickers and bottom-pickers usually are trading against the trend, which is a major mistake.

### **7. Letting losing positions ride too long.**

Most successful traders will not sit on a losing position very long at all. They'll set a tight protective stop, and if it's hit they'll take their losses (usually minimal) and then move on to the next potential trading set up. Traders who sit on a losing trade, "hoping" that the market will soon turn around in their favor, are usually doomed.

### **8. "Over-trading."**

Trading too many markets at one time is a mistake -- especially if you are racking up losses. If trading losses are piling up, it's time to cut back on trading, even though there is the temptation to make more trades to recover the recently lost trading assets. It takes keen focus and concentration to be a successful forex trader. Having "too many irons in the fire" at one time is a mistake.

### **9. Failure to accept complete responsibility for your own actions.**

When you have a losing trade or are in a losing streak, don't blame your broker or someone else. You are the one who is responsible for your own success or failure in trading. You make the trading decisions. If you feel you are not in firm control of your own trading, then why do you feel that way? You should make immediate changes that put you in firm control of your own trading destiny.

### **10. Not getting a bigger-picture perspective on a market.**

One can look at a daily bar chart and get a shorter-term perspective on a market trend. But a look at the longer-term weekly or monthly chart for that same market can reveal a completely different perspective. It is prudent to examine longer-term charts, for that bigger-picture perspective, when contemplating a trade.

## 2 Why Successful Traders Use Fibonacci and the Golden Ratio

Support and resistance levels on bar charts are a major component in the study of technical analysis. Many traders, including myself, use support and resistance levels to identify entry and exit points when trading markets. When determining support and resistance levels on charts, one should not overlook the key Fibonacci percentage "retracement" levels. I will detail specific Fibonacci percentages in this feature, but first I think it's important to examine how those numbers were derived, and by whom.

Leonardo Fibonacci da Pisa was a famous 13th century mathematician. He helped introduce European countries to the decimal system, including the positioning of zero as the first digit in the number scale. Fibonacci also discovered a number sequence called "the Fibonacci sequence." That sequence is as follows: 1,1,2,3,5,8,13,21,34 and so on to infinity. Adding the two previous numbers in the sequence comes up with the next number.

Importantly, after the first several numbers in the Fibonacci sequence, the ratio of any number to the next higher number is approximately .618, and the next lower number is 1.618. These two figures (.618 and 1.618) are known as the Golden Ratio or Golden Mean. Its proportions are pleasing to the human eyes and ears. It appears throughout biology, art, music and architecture. Here are just a few examples of shapes that are based on the Golden Ratio: playing cards, sunflowers, snail shells, the galaxies of outer space, hurricanes and even DNA molecules. William Hoffer, in the Smithsonian Magazine, wrote in 1975: "The continual occurrence of Fibonacci numbers and the Golden Spiral in nature explain precisely why the proportion of .618034 to 1 is so pleasing in art. Man can see the image of life in art that is based on the Golden Mean."

I could provide more details about the Fibonacci sequence and the Golden Ratio and Golden Spiral, but space and time here will not permit. However, I do suggest you read the book "Elliott Wave Principle" by Frost and Prechter, published by John Wiley & Sons. Indeed, much of the basis of the Elliott Wave Principle is based upon Fibonacci numbers and the Golden Ratio.

Two Fibonacci technical percentage retracement levels that are most important in market analysis are 38.2% and 62.8%. Most market technicians will track a "retracement" of a price uptrend from its beginning to its most recent peak. Other

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important retracement percentages include 75%, 50% and 33%. For example, if a price trend starts at zero, peaks at 100, and then declines to 50, it would be a 50% retracement. The same levels can be applied to a market that is in a downtrend and then experiences an upside "correction."

The element I find most fascinating about Fibonacci numbers, the Golden Ratio and the Elliott Wave principle, as they are applied to technical analysis of markets--and the reason I am sharing this information with you--is that these principles are a reflection of human nature and human behavior.

The longer I am in this business and the more I study the behavior of markets, the more I realize human behavior patterns and market price movement patterns are deeply intertwined.

# 3 Different Types of Market Orders: Using Each for the Best Fills

A customer signed up for my service the other day and was asking me about stops and different types of market orders. They were good questions and they reiterated to me the fact that I have subscribers that range from seasoned trading professionals to those testing the forex trading waters for the first time.

One thing I always like to point out to the less-experienced traders: There are no "dumb" questions and there is no shame in being inexperienced. Every single forex trader that ever walked the face of the earth has been inexperienced at one point.

This section on types of market orders, including stops, may be a "refresher" feature for the more experienced traders, and will likely be a more valuable feature for the traders newer to this fascinating field.

## **Market Order**

The market order is the most frequently used forex trading order. It usually assures you of getting a position (a fill). The market order is executed at the best possible price obtainable at the time the order reaches the forex trading pit.

## **Limit Order**

The limit order is an order to buy or sell at a designated price. Limit orders to buy are placed below the market; limit orders to sell are placed above the market. Since the market may never get high enough or low enough to trigger a limit order, a trader may miss getting filled if he or she uses a limit order. Even though you may see the market touch your limit price several times, this does not guarantee a fill at that price.

## **Stop Orders**

Stop orders can be used for three purposes: One, to minimize a loss on a long or short position. Two, to protect a profit on an existing long or short position. Three, to initiate a new long or short position. A buy stop order is placed above the market and a sell stop order is placed below the market. Once the stop price is touched, the order is treated like a market order and will be filled at the best possible price.

Importantly, while stops and MIT's are usually elected only when the specific

price is touched, they can be elected when the opening of a market is such that the price is through the stop or MIT limit. In this case, you can routinely expect the fill to be much worse than the original stop or better on the MIT. This applies to stop orders and MIT orders placed before the opening of pit trading.

### **Stop-Limit Orders**

A stop-limit order lists two prices and is an attempt to gain more control over the price at which your stop is filled. The first part of the order is written like the stop order. The second part of the order specifies a limit price. This indicates that once your stop is triggered, you do not wish to be filled beyond the limit price. Care should be taken when considering stop-limit orders--especially when trying to exit a position, because of the possibility of not being filled even though the stop portion of the order is elected. There is no stop-limit order without a second price. If your order cannot be filled by the floor broker immediately at the stop price, it becomes a straight limit order at the stop price.

### **Time Triggers**

Specify a time for your limit and market orders to go live.

*Example:* If you wanted to place a buy order based on the release of some news event. Specify the order parameters as you would, check the time parameter box and enter your specified time.

### **Trailing Stop**

Ride a currency's price trend, profit from its movement, and limit your downside risk without constantly monitoring prices. Trailing stops move your stop price with the price of the currency and are server-sided, protecting you in the event you lose Internet connection.

When using the trailing stop, it is important to know the answer to the question: How do you represent a pip per currency pair? A pip is the last digit to the right of the decimal point in the current currency dealing rate.

*Example #1:* EUR/USD 1 pip = .0001

*Example #2:* USD/JPY 1 pip = .01

*Example:* It is very important to know how to represent 1 pip in each of the currency pairs traded when submitting a trailing stop order. If we are long the EUR/USD at a basis of 1.1888, we want to place a trailing stop by trailing the bid price by 12 pips. This trail offset for the EUR/USD is written as .0012. In contrast the same trail for the USD/JPY would be written as .12 as the trail offset. If we buy from the ask and sell to the bid, then when we are long our stop price would be set to 12 pips below the current bid at the time of submitting the order. If the bid price is 1.1887, then our initial stop price would be set to 1.1875. If the bid price increased to 1.1902, then our new stop price would be set to 1.1890. With this being said, please note that our trailing stops update based on a pip by pip



movement. If the bid did move up to 1.1902, then immediately pulled back to 1.1890, the order would go live and sell at market.

### **Threshold Triggered Order (TTO)**

Specify two prices, an upper and lower price trigger. Once the market trades at either price, a market order is sent to the marketplace. This order type was designed to help limit potential losses and lock-in potential profits.

*Additional Explanation:* Many Forex traders want to place one price trigger to take profits and one to stop out of their position at the same time, and they want whichever order is executed first to cancel the other part of the order automatically. The best order type to accommodate this strategy is the TTO. This order type allows you to set both an upper and lower price trigger. The system will send out a market order for whichever price trigger is met first.

### **"Combo" Order Types**

A combo order involves a combination of two different order types. Whatever the action of the first part of the combo order is (either buy or sell), the trading system will send out an opposite order when the first part receives an execution. If we place a buy Market + TTO, the system will send out a market order to buy, and upon execution of that buy market order the system will send out an auto-closing sell TTO. This explanation would be the exact opposite for a sell market + TTO, first part of the order is a sell, the second part is the buy (to cover).

### **Limit + TTO**

This combo order type will initially place a limit order (either a buy or sell) and upon execution, places an opposite TTO (either a buy or sell). *Note:* Upon execution of any part of the initial limit order, an equal TTO is placed with your pre-set trigger prices. Please keep in mind that when the system sends out an equal TTO, you have to cancel and replace the TTO to change either the upper or lower trigger. With this being said, it is important to know how to place a stand-alone TTO (explained in the TTO section above).

### **Limit + Trailing Stop**

Initially places a limit order on one side (either a buy or sell) and upon execution, places an opposite trailing stop on the other side (either a buy or sell). *Note:* Upon execution of any part of the initial limit order, an equal trailing stop is placed with your pre-set offset.

*Note:* It is very important that you understand how to represent the number of pips for your trailing offset for your trailing stop order when placing the trailing stop order. (See Trailing Stop order type explanation)

### **Limit + Stop Market**

Initially places a limit order on one side (either a buy or sell) and upon execution, places an opposite stop market order for the other side (either a buy or sell).

### **Market + TTO**

Initially places a market order (either a buy or sell) and upon execution, places an opposite TTO (either a buy or sell). *Note:* Upon execution of any part of the initial market order, an equal TTO is placed with your pre-set stop prices. To change either of your TTO price trigger parameters you must cancel and replace the order. Either the bid or ask price can trigger your upper and lower price triggers. At the time the trigger is met the system sends out a market order.

### **Market + Trailing Stop**

Initially places a market order (either a buy or sell) and upon execution, places an opposite trailing stop (either a buy or sell). *Note:* Upon execution of any part of the initial market order, an equal trailing stop is placed with your pre-set offset. You must know how to represent the number of pips of your trail offset per currency pair.

### **Stop Limit + TTO**

Initially places a stop limit order (either a buy or sell), which works like a Stop Market order with one major exception. Once the order is activated (by the currency trading at or through the stop price), it does not become a market order. Instead, it becomes a limit order with a specified limit price. Your order fill price will be either at your specified limit price or better. Upon execution of the first part of the combo order, the system will place an opposite TTO (either a buy or sell). To change either of your TTO price trigger parameters you must cancel and replace the order. *Note:* Either the bid or ask price can trigger your upper and lower price triggers. At the time the trigger is met the system sends out a market order.

### **Stop + TTO**

Initially places a stop market order (either a buy or sell) and upon execution, places an opposite TTO (either a buy or sell). *Note:* Upon execution of any part of the initial stop order, an equal TTO is placed with your pre-set stop prices. To change either the upper or lower trigger you must cancel and replace the TTO. To change either of your TTO price trigger parameters you must cancel and replace the order. *Note:* Either the bid or ask price can trigger your upper and lower price triggers. At the time the trigger is met the system sends out a market order.

### **Stop + Trailing Stop**

Initially places a Stop Market order (either a buy or sell) and upon execution, places an opposite Trailing Stop order (either a buy or sell). *Note:* You must know how to represent the number of pips of your "trail offset" per currency pair. At the time you place a buy Stop + Trailing stop you would enter your desired stop price

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