Ideas for improving your trading in 2010

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Disclaimer

All reasonable steps and due diligence have been taking in preparing this document. However, it may contain ideas that are not appropriate to you or your style of trading, so do your own research and draw your own conclusions. I have had success using these techniques but past performance is no guarantee of future results. Any losses that are incurred are the sole responsibility of each trader. Under no circumstances will either I or trade2win accept any liability for loss.

Ideas for improving your trading in 2010

There are many different ways that traders can improve their performance.

I've tried to stay away from the usual statements of "have a plan" and "manage your risk". If you don't already do these things, you stand little chance of long term success.

Instead, I've tried to identify a few strategies that have improved my performance. I hope they make a positive difference for you too.

I wish you all the best with your trading in 2010.

Tom

1. Trade the Gap

In my opinion, trading "the gap" is one of the highest probability trades there is and generates great profits.

Gaps are defined as areas on the chart in which no trading has taken place.

I look for these gaps in the Forex markets every Sunday evening at 21:00 GMT when the markets open for the week.

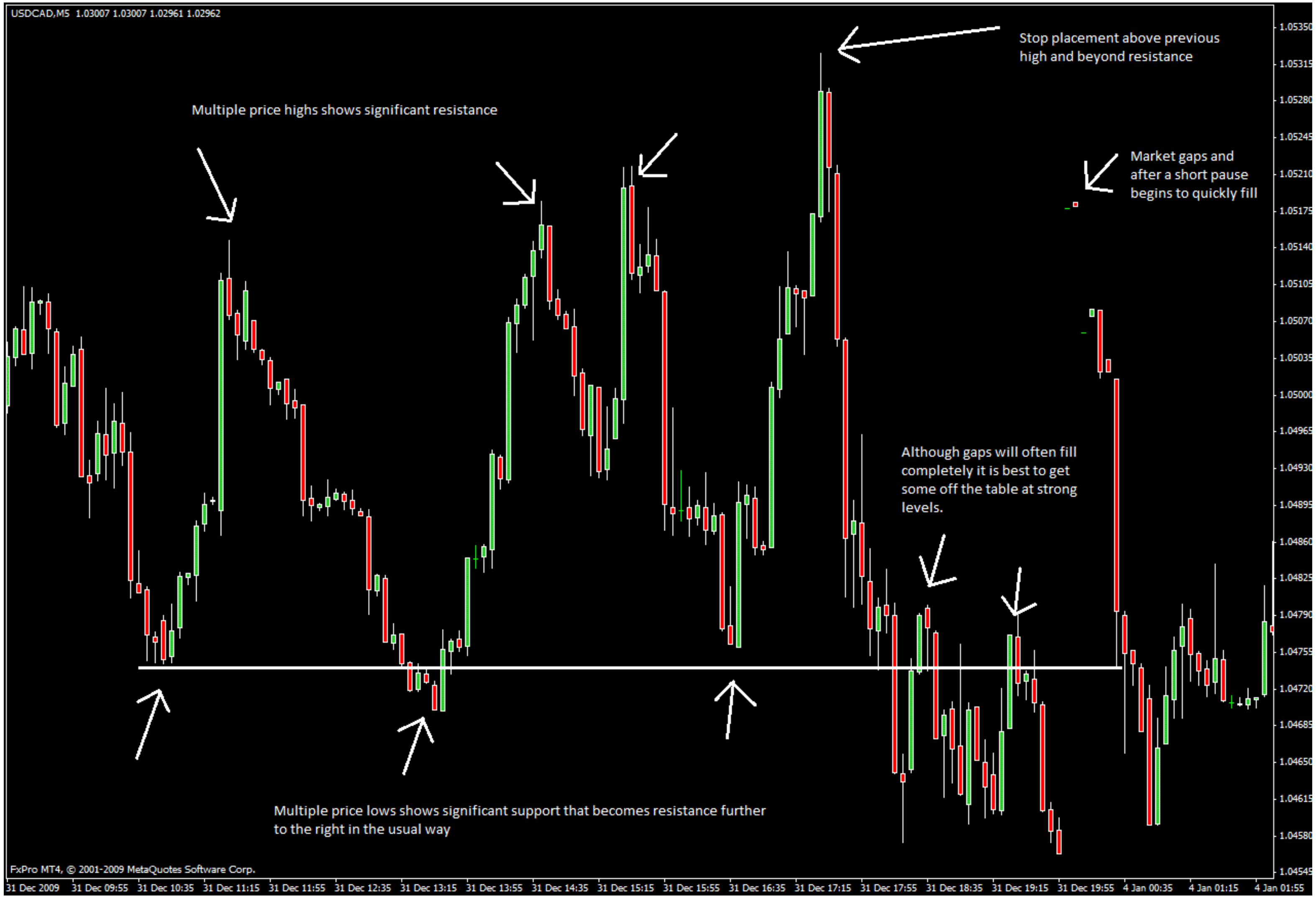
What you are looking for is a significant "gap" or empty space on the chart between Fridays close and Sundays open.

These gaps will fill almost every time. The only question is how they will fill. Sometimes they will fill instantly. Other times price will continue in the direction it gapped before turning to fill it later.

The first thing you want to do is identify which pairs have gapped and whether the gap is significant enough to play. For me personally, a 15 pip gap is not worth trading. I am looking for gaps in excess of 30 pips.

The second thing to do is to prepare to "fade it." That is to say, if the market has gapped up, you should be looking to go short. If the market has gapped down you should be preparing and looking for opportunities to get long.

There are many different techniques for gap trading as in every other type of trade. Here are some suggestions based on what I do:



This was the last gap trade I did in USD/CAD on Sunday 3rd January 2010.

Please note this 5m chart and the one below are intended for illustration purposes only. I have used it because you can see the gap, the s/r and how the gap fills more clearly.

When I traded this, I did so on the hourly time frame. I do not use the 5m time frame in my trading.

If the market gaps into a level as it did here – gapping sharply higher into resistance - I will sell immediately and place a technical stop. In this case, the stop goes beyond resistance and beyond a previous high.

If there is a significant s/r pivot before the gap is filled as was the case here, I usually exit half the trade at that level and run the rest for a fill. Not all gaps will fill exactly so it is worthwhile closing your position shortly ahead of it filling.

This trade risked 19 pips for a return of 36 pips and worked exceptionally well – not all trades are as easy as this one although the outcome of an eventual fill is extremely reliable.

This is not a gap I traded as it was too small but I will use it as an example of the other technique I like to employ.

If the market gaps down (as it did in this case) but there is no significant support, I will stand aside and see if it can find its way to a level.

In this example, price gaps down and continues moving down for a short while.

Now what I do is place a buy order at the point the gap will start to fill and if that is triggered, I then place my stop at the lowest point the market reached. This is indicated on the chart to the left.

This technique would be reversed for markets that gap up.

This strategy is highly effective but remember to keep an eye on your risk management and your R:R. It won't work every time.

2. Know that momentum doesn't always indicate a force

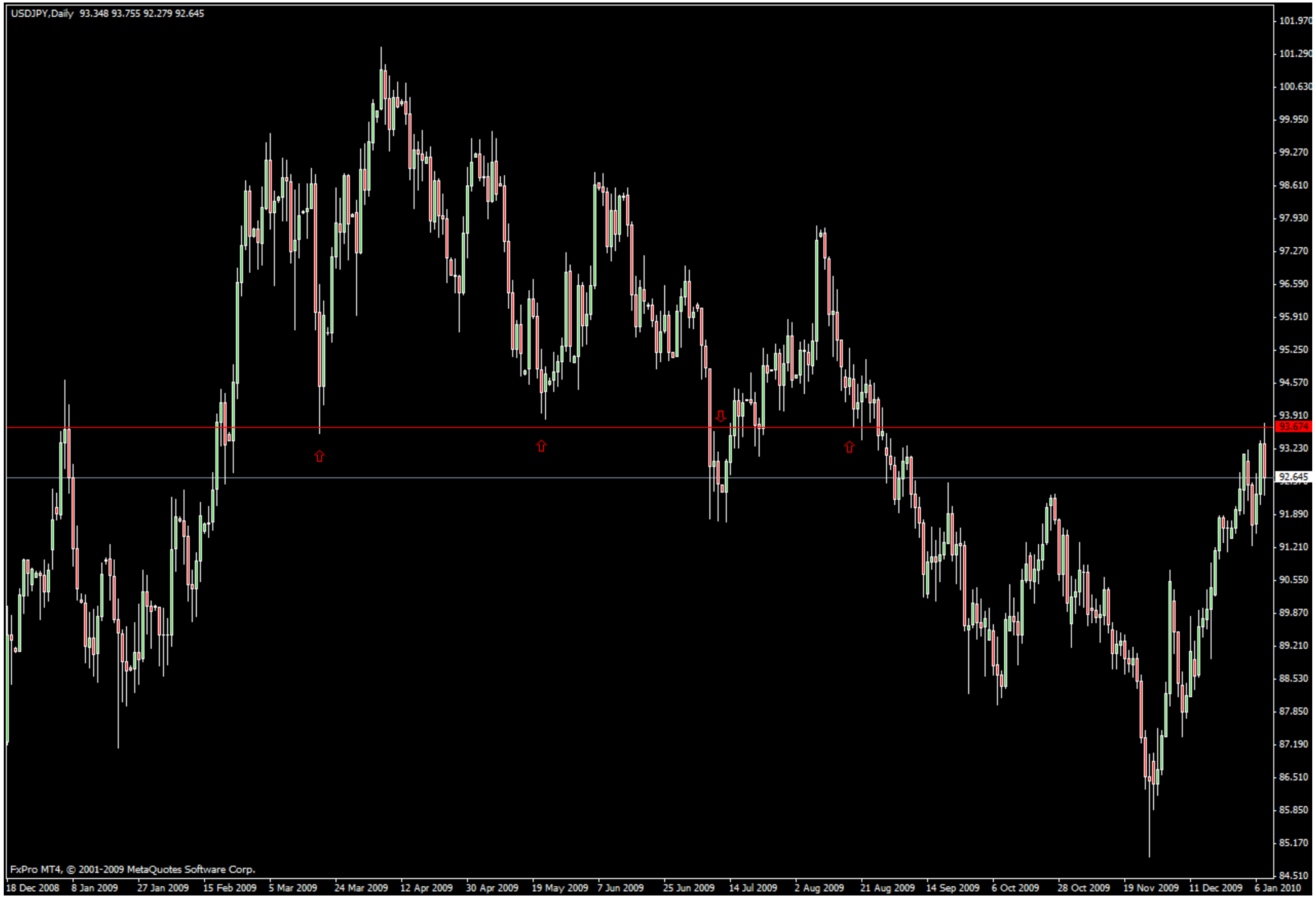
Many new (and some experienced) traders often get enticed into jumping on board the momentum generated by large range candles. I have been victim to this in the past. However, just because there is a momentum behind a move doesn't always mean there is force behind it.

When I started out playing touches of levels, I used to feel more comfortable if there were smaller range candles trading into the level as I would take this as a clear sign that the market was stalling or running into difficulty and try to pre-empt a turn.

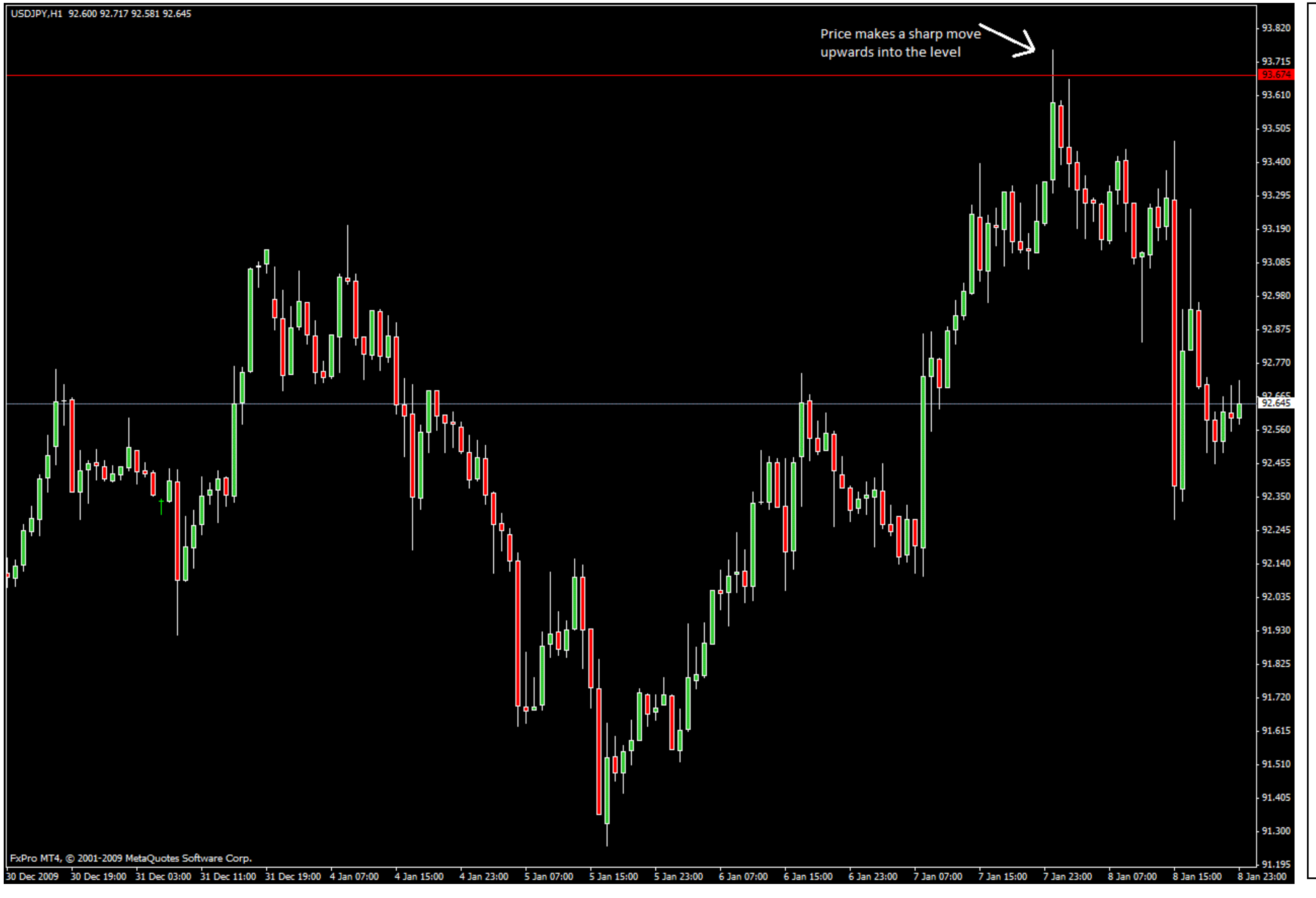
However, experience has taught me that providing the level is a good one, the sharper the move, the more chance of a decent reaction for a profitable trade.

The psychology behind this is relatively simple: large moves create quick profit for traders that are already in on the move. It is human nature to fear that what we are given quickly can be taken away from us again just as fast. As a result, traders often take their profits on these big moves.

So I much prefer to fade high range candles at carefully selected areas on the chart.



This was a strong s/r pivot on the daily USD/JPY. It has even more touches further back that are not shown on this chart.



This is the hourly chart. Price is trading in a sideways range and then suddenly at 22:00 GMT it makes a sharp movement upwards.

A move like this at this time of night is uncommon in my experience.

I sold this as it traded into this level.

Stop placement on these kind of trades comes down to personal experience. I usually zoom out and look for a swing high or another area of s/r to put my stop behind.

When you do this you need to pay careful attention to your target so you can work out your R:R.

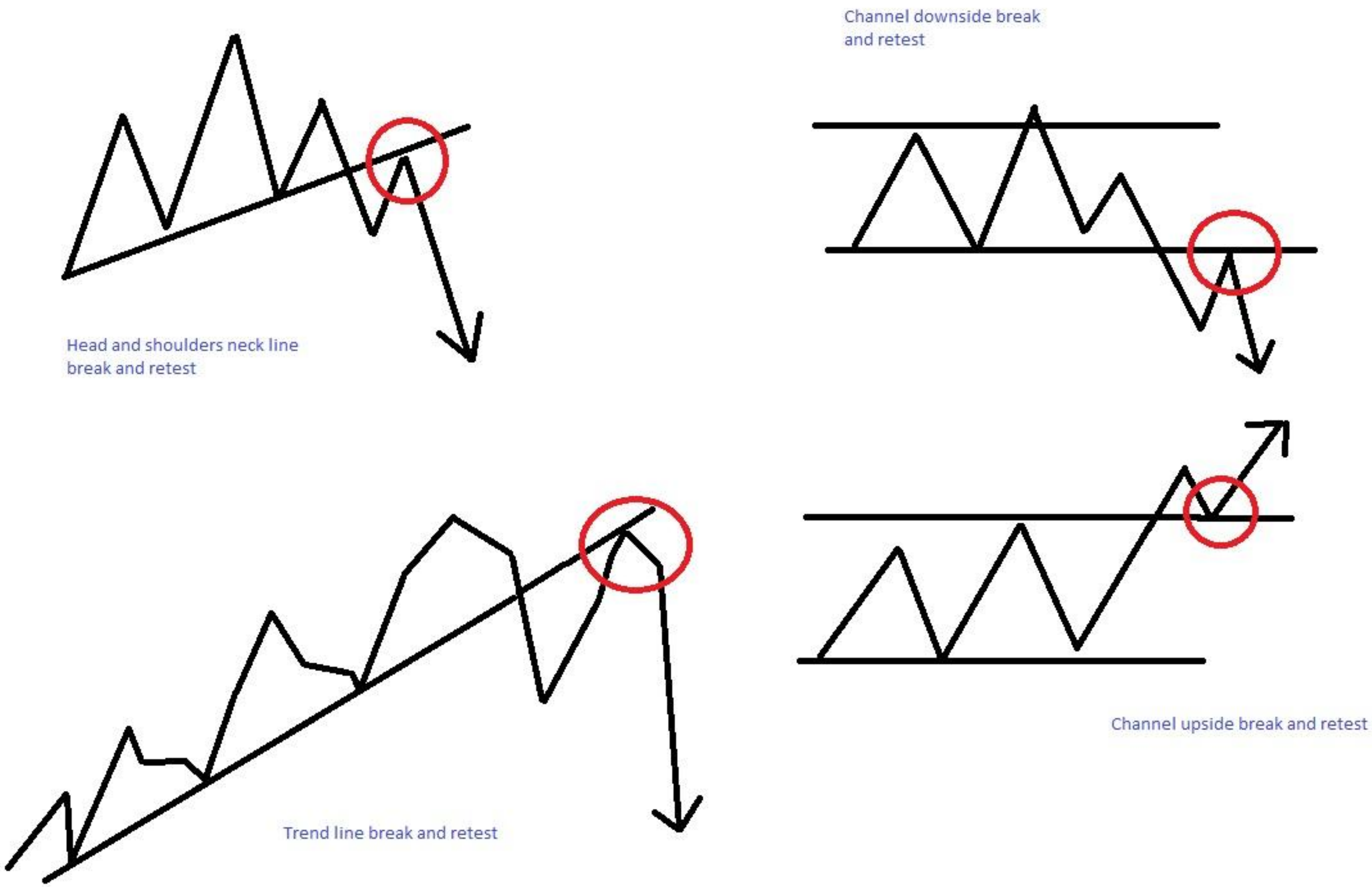
Some traders will use an arbitrary stop. E.g. 10 ticks. If you know your market very, very well you may be able to do this.

3. Know the markets rhythm. Let it break and play the retest

I’ve been talking about this since I wrote *Making Money Trading*.

This is perhaps the single most important idea behind my trading.

They say a picture is worth a thousand words so here are some examples I have drawn.


Channel downside break
and retest
Head and shoulders neck line
break and retest
Channel upside break and retest
Trend line break and retest

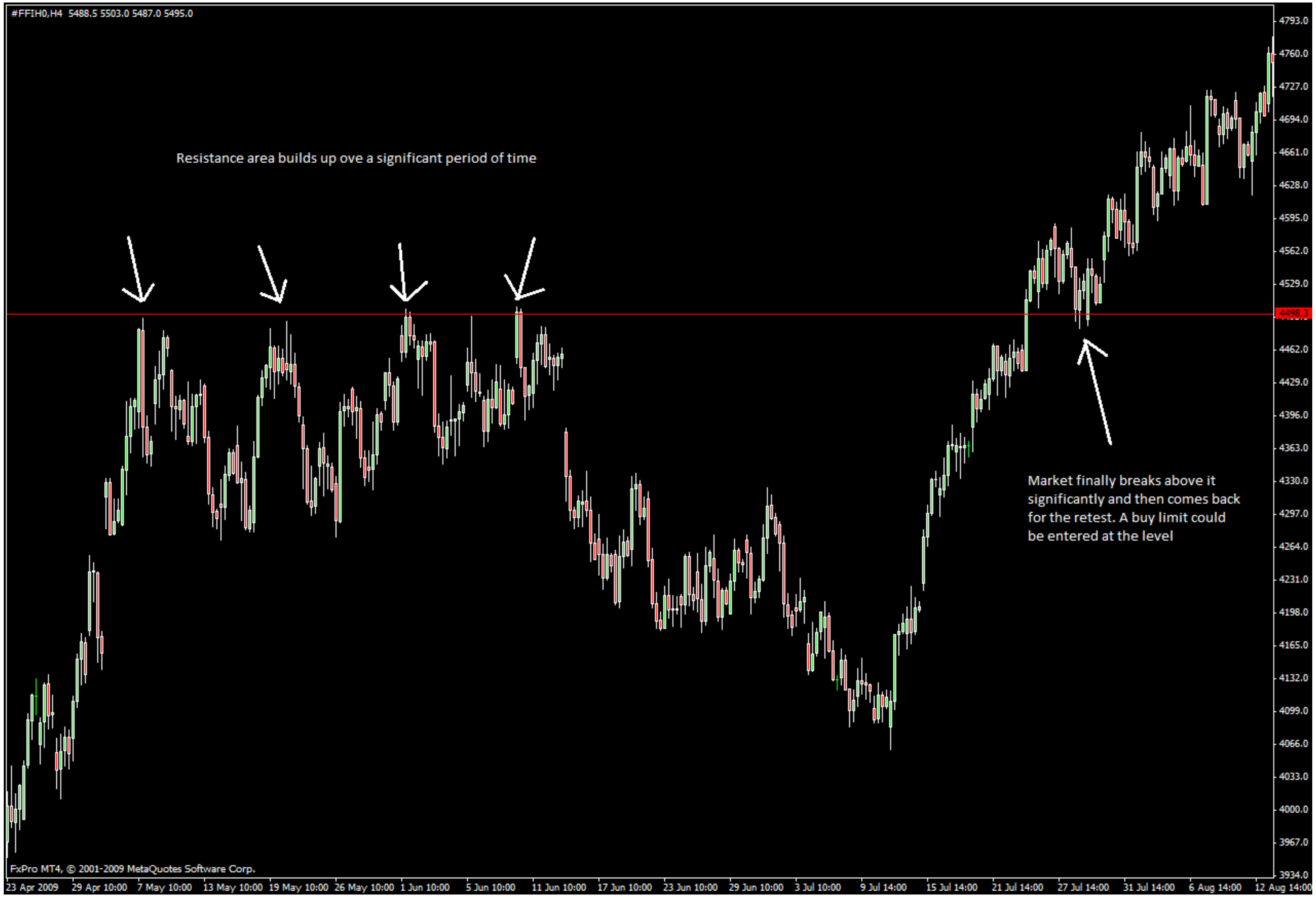
Sometimes the market breaks out and sometimes it fails.

This is the FTSE 100 March future last week.

The blue boxes indicate failed breaks of strong areas.

These breakouts would have made money for none but the most hardcore scalpers.

The lower one was particularly vicious coming as it did on the back of a terrible Non-Farms number (remember, bull markets ignore bad news).



This is the FTSE 100 again on a 4hr chart this time. Note how a significant resistance level builds up.

Once the market breaks this level it comes back, retests it and then takes off.

The market does this time and time again.

Almost every single time the market takes out a strong level convincingly, it will come back for a retest.

I like to leave limit orders in at these levels. Conservative traders will wait for candlestick confirmation.

4. Map the markets

Try to build a map of the market you are trading.

I build my map by plotting s/r as I outlined in *Making Money Trading*.

As long as I can see my map I have a plan.

The markets movements each day mean that I constantly have more information with which to mentally update my plan.

I will give you an example of how this plan formulates in my head below.

This is a chart for daily Crude Oil. The market is trending upwards and is on a course for the next key level which is $85.30.

This level was previous support throughout the later part of ’07 and early ’08.

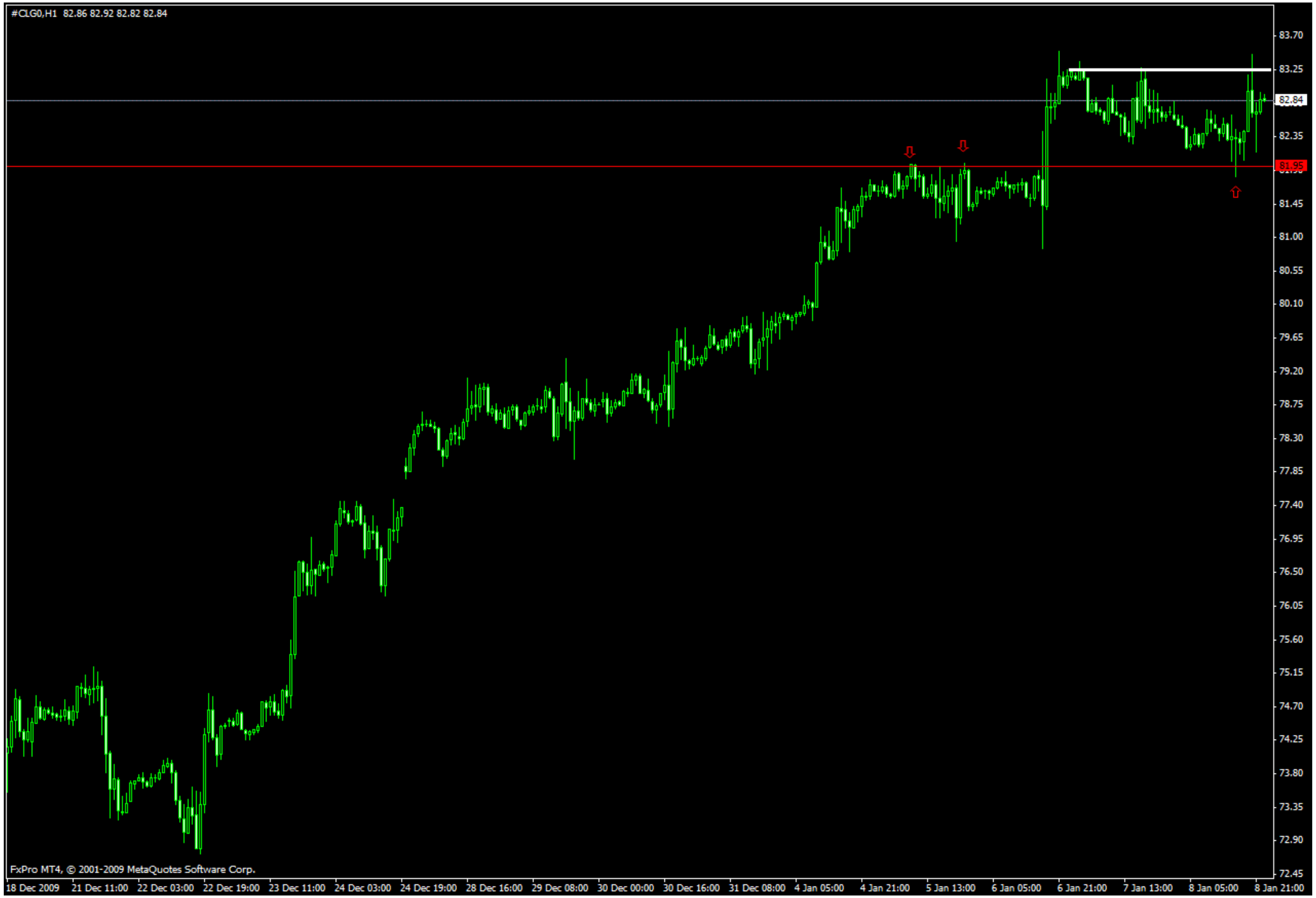
We can now expect price to have a reaction to this level and find some resistance there.

As a result, my map of the market has told me that I am to look for selling opportunities at this level depending of course on how the market trades into it (see point 2 above).

This chart is zoomed in to focus on the recent price action.

Note how price has had a big run up and taken out the previous swing high marked with an arrow. When this level is taken out, my plan is getting more depth to it.

I then become bullish and begin looking for a buying opportunity on a pullback to that high at $81.95 with a target of around $85.30 where I will look to cut and perhaps reverse.



The red line is the previous daily high in the chart above. This is how it looks on the hourly timeframe.

Note how the pattern plays out once again.

The market found resistance at that previous daily high. It rejects it several times. Note how it has a false break on news. Finally, it breaks the resistance, closing above it. It then makes its way back to retest. Once it has retested it takes off again to the upside.

Fridays plan was to buy $81.95 with a view to a move to $85.30 but paying close attention to any hourly resistance (the white line at the top) that may stand in its way.

At this level one can look to take some off the table or move stops depending on your personal attitude towards risk.

Note how the plan is formulated using a top down approach. We isolate the big daily levels and use those and the hourly time frames for entries and exits.

I wrote this to provide some basic ideas for those that are still struggling with their trading or interested in increasing their performance. I hope that you find it useful.

Please feel free to send me a private message at T2W if you have any questions. I am always happy to help.

Tom